Aalto University
School of Science
Degree Programme in Industrial Engineering and Management

Jasu Koponen

How private equity investors build investment success by effective planning and management of the post-deal honeymoon period.

A case analysis of SME buyouts by a Finnish private equity investor.

Master's Thesis

Helsinki, April 6, 2015

Supervisor: Professor Mikko Jääskeläinen

Instructor: Mika Uotila, M.Fin.

AALTO UNIVERSITY SCHOOL OF SCIENCE
Degree Programme in Industrial Engineering and Management

ABSTRACT OF THE MASTER'S THESIS

Author: Jasu Koponen		
Subject of the thesis: How private equity investors build investment success by effective planning and management of the post-deal honeymoon period.		
Number of pages: 84 + 3	Date: 6.4.2015	Library location: TU
Professorship: Strategic Management	Code of professorship: TU-91	
Supervisor: Professor Mikko Jääskeläinen		
Instructors: Mika Uotila (M.Fin.)		

The core of value created by private equity (PE) investors in leveraged buyouts (LBOs) has increasingly shifted from financial and governance engineering towards value created by operational and strategic improvements. Winners are no longer made in the deal-making period, but instead PE investors are taking an increasingly active approach to managing their portfolio companies.

This study will focus on an aspect deemed important in PE, namely the planning and management of the period imminently after the closing of the deal. Concepts such as "100-day program" and "honeymoon period" have found their way into PE literature from that of M&As, and are widely used by PE practitioners. However, from an academic perspective, what the planning and management of the post-deal honeymoon period entails in the LBO setting is still unclear.

The study aims to provide answers to the question: "*How should a private equity investor plan and manage the post-deal honeymoon period in a leveraged buyout?*" First, a conceptual framework is created by reviewing the current academic literature on the subject. Using case study as the research method, the empirical part of the study investigates the approaches used by one Finnish PE investor in five of its portfolio companies. Finally, based on the findings, guidelines are provided for the case PE investor and other PE investors alike.

They key academic contributions of this study include:

- Synthesizing the existing literature on private equity buyouts, value creation in buyouts, and planning and managing the post-deal honeymoon period.
- Creating a categorization of the activities and themes related to the planning and management of the post-deal honeymoon period in PE buyouts.
- Building a better understanding of the key challenges and issues related to the start of the holding period.
- Making generalizable recommendations to private equity professionals on how to ensure an efficient start to the holding period.

Keywords: Private equity, Buyout, LBO, Post-deal honeymoon period	Publishing language: English

AALTO-YLIOPISTO, PERUSTIETEIDEN KORKEAKOULU
Tuotantotalouden koulutusohjelma

DIPLOMITYÖN TIIVISTELMÄ

Tekijä: Jasu Koponen		
Työn nimi: Kuinka pääomasijoittajat varmistavat sijoituksen onnistumisen tehokkaalla kaupanjälkeisen kuherruskuukauden suunnittelulla ja johtamisella.		
Sivumäärä: 84 + 3	Päiväys: 6.4.2015	Työn sijainti: TU
Professuuri: Strateginen johtaminen	Koodi: TU-91	
Työn valvoja: Professori Mikko Jääskeläinen		
Työn ohjaaja: Mika Uotila (M.Fin.)		

Pääomasijoittajien tekemissä LBO-tyyppisissä, suureksi osaksi lainapääomalla rahoitetuissa yritysostoissa, yhä isompi osa arvonmuodostuksesta syntyy operationaalisten ja strategisten parannusten kautta talous- ja governanssisuunnittelun sijaan. Tästä syystä pääomasijoittajat ottavat enenevissä määrin aktiivisen roolin portfolioyritystensä toiminnassa.

Tämä tutkimus keskittyy pääomasijoittajien tekemien yritysostojen kannalta erittäin tärkeään ajanjaksoon heti tehdyn kaupan jälkeen. Konseptit, kuten "100 päivän suunnitelma" ja "kuherruskuukausi" (honeymoon period), ovat rantautuneet pääomasijoitusmaailmaan M&A-kirjallisuuden puolelta. Akateemisesta näkökulmasta on kuitenkin epäselvää, mitä LBO-tyyppisen yrityskaupanjälkeisen kuherruskuukauden suunnittelu ja johtaminen sisältävät.

Tutkimus pyrkii vastaamaan kysymykseen, "*Kuinka pääomasijoittajan tulisi suunnitella ja johtaa LBO-tyyppisen yrityskaupan jälkeinen kuherruskuukausi?*" Tämänhetkisen akateemisen kirjallisuuden pohjalta luodaan ensin konseptuaalinen viitekehys aiheen tutkimiselle. Tämän jälkeen empiirinen osio tutkii case-tutkimusmenetelmän avulla erään suomalaisen pääomasijoittajan käyttämiä toimintatapoja sen viidessä portfolioyrityksessä. Lopuksi tutkimus tekee tulosten pohjalta suosituksia niin tutkimuksen kohteena olleelle kuin muillekin pääomasijoittajille.

Tutkimuksen merkittävimmiksi akateemisiksi kontribuutioiksi voidaan laskea:

- Olemassa olevan akateemisen kirjallisuuden syntetisointi mitä tulee arvonluontiin ja kuherruskuukauden suunnittelun ja johtamiseen LBO-tyyppisissä yrityskaupoissa
- Kuherruskuukauden suunnitteluun ja johtamiseen liittyvien aktiviteettien ja teemojen kategorisoinnin luominen
- Ymmärryksen lisääminen portfolioyrityksen omistusperiodin alkuun liittyvien haasteiden osalta
- Yleistettävissä olevien suositusten tekeminen pääomasijoittajille, kuinka varmistaa hyvä ja tehokas alku omistusperiodille.

Asiasanat: Pääomasijoitus, Buyout, LBO, Kaupanjälkeinen kuherruskuukausi	Julkaisukieli: Englanti

Acknowledgements

This little project began with professor Esa Saarinen, for whom I have deep respect in so very many ways, introducing me to Mr. Mika Uotila, the managing partner at Deep Blue. Being an open-minded thinker Mika generously gave me an opportunity and free hands to come and poke around his company in search of the perfect research question that would ideally be of interest to me, Deep Blue as well as the academic community. I owe my biggest gratitude to Mika and Esa for providing me with this fabulous opportunity.

Special thanks goes also to all the partners and other employees at Deep Blue who so warmly welcomed me into the company and took the time from their busy schedules for the not-so-short interviews and my never-ending questions. The same applies to all the executives I got to interview at the case portfolio companies. Much love.

I also want to thank professor Mikko Jääskeläinen who supervised my work with utmost expertize and the perfect amount of discipline always mixed with a generous dash of humor. Mikko, you rock.

Finally, there are my parents. You guys must have asked me at least a thousand times, "Jasu, when are you going to finish your thesis?" In writing these last words before hitting "Save as PDF", I want to thank you for all that wasted energy you guys put into worrying about me and this little project. Here you go – it's done!

Jasu Koponen

Helsinki, 6.4.2015

Table of Contents

APPENDICES

List of Figures

List of Tables

1. Introduction

> *"Once you buy a company, you are married. You are married to that company. It's a lot harder to sell a company than it is to buy a company. People always call and congratulate us when we buy a company. I say, 'Look, don't congratulate us when we buy a company, congratulate us when we sell it. Because any fool can overpay and buy a company, as long as money will last to buy it.' Our job really begins the day we buy the company, and we start working with the management, we start working with where this company is headed."*
>
> *Henry R. Kravis, Financier and Investor*

1.1. Background of Research

The core of value created by private equity (PE) investors in leveraged buyouts (LBOs) has increasingly shifted from financial and governance engineering towards value created by operational and strategic improvements (Achleitner, Braun, & Engel, 2010; Ernst&Young, 2012; Heel & Kehoe, 2005; Klier, Welge, & Harrigan, 2009; Loos, 2005). Winners are no longer made in the deal-making period, and thus, PE investors are taking a much more active and hands-on approach to managing their portfolio companies. This shift into activist ownership naturally creates a pressure for investors to develop a wider set of capabilities and competencies, one encompassing areas such as strategic and change management, industry, operations and process expertize, and leadership.

Despite this shift in value creation, academic work on private equity and LBOs has largely concentrated on describing the finance and governance aspects of buyouts. Merely noting that PE investors are increasingly involved in the strategic and operational level decision-making is not enough; more effort ought to be directed into researching the management and leadership practices used by PE investors to actively develop their portfolio companies during the post-deal holding period. What we need now is an extension from 'what' is done into 'how' it is done.

When comparing to the state of research in private equity to e.g. that of mergers and acquisitions (M&A), it is clear how big the research gaps are in the field of PE. While M&A researchers have long ago established a considerable theory-base on best practices related to post-deal integration planning and management (see e.g. McSweeney & Happonen, 2012, and Teerikangas & Joseph, 2012, for overviews), the literature on private equity doesn't do so much as scratch the surface on how PE professionals go about producing the value creating changes in their newly acquired portfolio companies. How and when do they plan and implement the operational and strategic improvements? How do they ensure that the holding period gets off to an optimal start? How do best practices in PE post-deal planning and management differ from those in M&A? As Heel and Kehoe (2005) put it: “A standard active-ownership process that applies and develops best practices is the next step for private equity industry.”

This study will focus on an aspect that has been deemed important in both PE and M&A worlds, namely the planning and management of the period imminently after the closing of the deal. Concepts such as “100-day program” and “honeymoon period” have found their way into PE literature (e.g. Heel & Kehoe, 2005; Matthews et al., 2009a; Schwetzler, 2007) from that of M&As, and are widely used by PE practitioners – at least on the level of thought. However, what the planning and management of the post-deal honeymoon period entails in the LBO setting is still unclear. This is also the case for Deep Blue (name changed), a Finnish activist private equity investor, which, despite acknowledging the critical importance of the post-deal honeymoon period for the success of its investments as a whole, is yet to develop common and standardized internal practices in this arena. The theoretical frameworks developed here based on the findings from the current academic literature and the empirical case studies on five of Deep Blue’s portfolio companies, will serve as tools for Deep Blue to systematize its work and learning processes. This will enable the company to further develop its capabilities in planning and managing the post-deal honeymoon period, and by so doing increase the likelihood of successful future investments.

The study will be of interest not only to Deep Blue, but also to other private equity practitioners and to academics, as this will be the first broad-scale work on the subject. The study will pave the way towards a deeper understanding of the practices used in planning and managing the post-deal honeymoon period, and of what lies behind the value creation in LBOs.

1.2. Research Problem and Research Questions

When acquiring a company, the challenge for any PE investor, in addition to negotiating a favorable price and advantageous terms, is to create a solid foundation for the holding period. This encompasses a wide variety of aspects, such as building personal relationships and trust between the management and the new owners, agreeing on governance related issues, and developing an initial vision on how the company will be developed further. This particularly crucial period continues during the first months of the holding period, when i.a. more detailed business plans are being forged, first changes are being implemented, new operating models are tested and the new relationships are being put to a test.

With so many changes and activities taking place during the post-deal honeymoon period, it is obvious that the process needs to be planned and managed to ensure success. The general research problem for the study can thus be formulated as follows.

Research question:

> *How should a private equity investor plan and manage the post-deal honeymoon period in a leveraged buyout?*

The research problem can be dissected into three distinct sub-questions as follows:

Sub-question 1:

> *Based on the current academic literature, how do private equity companies create value in leveraged buyouts, and what are the key issues with regard to planning and managing the post-deal honeymoon period?*

Sub-question 2:

> *Based on the empirical case studies, what are the current approaches to planning and managing the post-deal honeymoon period used by Deep Blue, and how successful have they been from the firm's partners' and the portfolio companies' management team's perspectives?*

Sub-question 3:

> *Based on the theoretical and empirical findings, how should Deep Blue and other PE investors plan and manage the post-deal honeymoon period when acquiring a new portfolio company?*

These sub-questions give rise to three distinct parts in the study. The first part aims to create a general understanding and conceptual framework of the subject. The work here relies on the current academic literature on private equity and value creation in buyouts. The second part, being empirical in nature, focuses on the case PE investor, and the five case portfolio companies. Here the goal is to understand what actions, events and changes took place in the individual case companies during the deal-making and post-deal honeymoon phases. The case studies will also shed light on how successful the measures and actions taken are seen to have been by the key people involved from the buyer's as well as the management's side. The third part will synthesize the first two parts, and seeks to provide guidelines for the case PE investor Deep Blue, and other PE investors alike.

1.3. Scope and Limitations

The theoretical part of this study focuses on buyouts, not extending e.g. into the field of venture capital. Similarly subjects such as strategy and board work, which are clearly major themes in a buyout process, are discussed mainly based on how the private equity literature deals with them. Diving into e.g. the endless strategy literature is out of the scope of this study.

To ensure the reliability of the theoretical part, a systematic search method was used to find relevant articles. In addition to systematically searching for literature from relevant journals, databases and Google Scholar, "snowballing" technique – the practice of looking for relevant citations in the references of each discovered article – was used until the search saturated into the point where it was no longer possible to unearth any new articles or sources on the subjects studied here.

The empirical part also entails scope-related decisions that have an impact on the study. First of all, the study is limited to one single Finnish PE investor, and five of its current portfolio companies. Furthermore, of the people involved in these five case companies, only the partner-level deal team members of Deep Blue, and the top-most managers (mainly CEOs and CFOs) were interviewed.

The study has a broad approach, trying to form a holistic picture of the actions and measures taken by private equity investors during deal making and the post-deal honeymoon periods. The phase "honeymoon period" is defined as the time period during which the newly united parties – the PE firm's deal team, the board, and the management team – learn to work together, usually launch the first change initiatives with great enthusiasm, and often put more than average effort into the company. However, no previous research has clearly defined the characteristics of a honeymoon period, and for how long it generally lasts after the deal close. Thus the time-related scope of this study remains defined quite abstractly as the "months after the closing of the deal, during which it can be said that the work and relationships have not yet routinized in the new portfolio company."

1.5. Structure of the Study

Figure 1 provides a summary of the structure of this study, and illustrates how the research questions relate to the individual parts of the thesis.

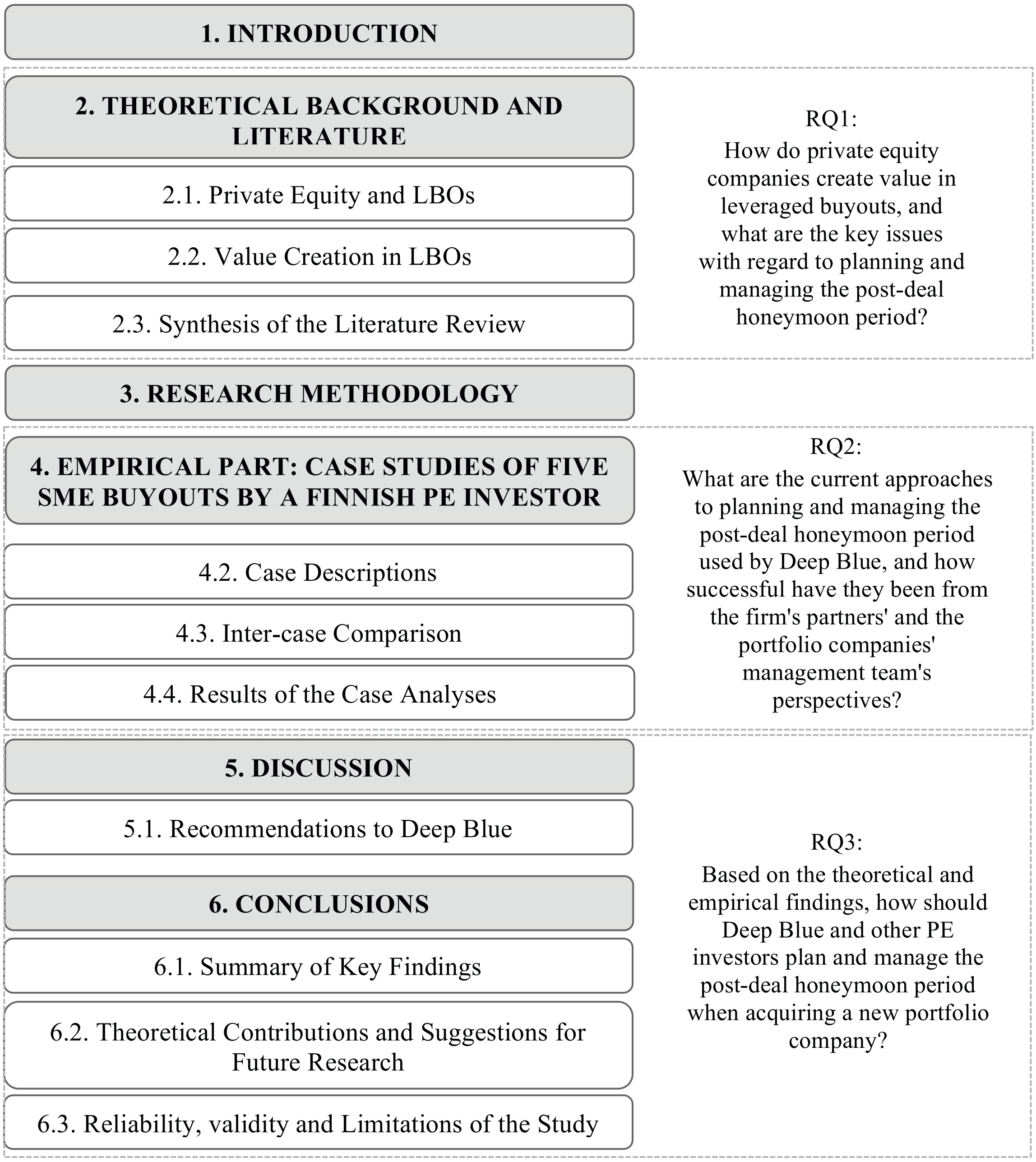

Figure 1: Structure of the Study

2. Theoretical Background and Literature

The second part of this study builds the theoretical foundation of the research by reviewing, for the relevant parts, the current academic literature on private equity and LBOs. The development of initial themes and conceptual frameworks used in the empirical part rest mainly on the theoretical background developed here.

2.1. Private Equity and LBOs

This section will provide the basic background knowledge of the logic of private equity and LBOs, examine what distinguishes PE firms as owners of a company, and form a picture of the buyout investment process.

2.1.1. Introduction to Private Equity

Private equity can be defined quite simply as:

> *The provision of equity capital to companies whose shares are not listed on a recognized stock exchange.* (Sharp, 2001)

The private equity market is an important source of funds for startup firms and private middle-market firms, but also to firms in financial distress and public firms seeking to become privately owned (Fenn et al. 1997). Although such a straightforward and simple concept, private equity can take various different forms, and, as Sharp (2001) explains, has potential for great complexity. As an investment asset class private equity includes venture capital (seed, start-up, expansion and replacement capital) and buyout investments, as well as mezzanine capital, a hybrid of debt and equity financing (Loos, 2005). In this study, however, in accordance with the focus of the work on leveraged buyouts, the term private equity refers to buyouts, unless stated otherwise.

Private equity firms raise funds from pension funds, insurance companies, investment banks and other institutions, as well as wealthy individuals, and then invest that money in buying, developing and ultimately selling businesses. Having raised a specific amount of capital, a fund will close to new investors. A fund's life is usually no more than ten years, which is when the fund is liquidated, selling all its businesses within this preset time frame. Typically the holding period of any single portfolio company is 3-5 years, during which time the aim is to increase the equity value of the company as much as possible. A private equity firm's earlier track record of previous fund performance naturally heavily impacts its ability to raise money for future funds. (Loos, 2006; Sharp, 2001; Wright et al., 2009)

Seeking to minimize risk and exercise control over the use of their money, investors set up constraints for the management of the fund. The fund management contracts may limit, for example, the target industry, size, or number of investments made by the private equity firm. However, once the fund is up and running and the money committed, investors usually have very little control over the management. Even the investor advisory councils have far less power and influence than a public company's board of directors. This is why the partners of the private equity firms are called General Partners, and the investors in PE funds Limited Partners. (Kaplan & Strömberg, 2008; Loos, 2006; Sharp, 2001; Wood & Wright, 2009)

A private equity firm is compensated in three ways. First, they earn an annual management fee, typically about 1.5% to 2% of capital committed. Second, subject to achieving a minimum rate of return for the investors, the PE firm earns a share of the profits of the fund. This "carried interest" is typically about 20% of all fund profits, which are mostly realized via capital gains of the sale of portfolio businesses. Finally, some private equity firms charge e.g. deal fees, monitoring fees and consultancy fees from the companies they invest in. The sharing of risk and reward, and realizing the bulk of their return only on exit, separates private equity from the major alternative private company finance, i.e., debt. (Kaplan & Strömberg, 2008; Sharp, 2001)

The fact that the acquisition transactions are negotiated directly between the private equity firm and the target company with less regulatory issues at play, makes it possible to structure the investment terms to match the precise requirements of both parties, often leading to highly complex structures. Also, as the shares are not publicly traded, there are no given rules for reporting. This means that also the reporting requirements can be negotiated directly between company and investor. What makes the relationship between investor and investee company even closer is the fact that the investors are generally locked in to their shares until an exit through an initial public offering (IPO), or sale to a third party, making the investment highly illiquid. (Sharp, 2001)

Private equity firms and the funds they manage are as rule structured as private partnerships. In some countries – particularly the United States – this form or organization gives them important tax and regulatory advantages over public companies. With flat hierarchy and little support staff, the firms maintain flexibility and efficiency in their internal operations. (Kaplan & Strömberg, 2008)

The flexibility of private equity, coupled with the high levels of return associated with this investment form, have lead to considerable growth and interest in investing in unquoted companies (Sharp, 2001). A substantial number of studies have found that the returns to investors in buyout funds continuously outperform both the returns of "strategic" buyers (i.e. mergers and acquisitions) and average stock market returns (e.g. Ernst&Young, 2012; Heel & Kehoe, 2005; Loos, 2006).

2.1.2. Private Equity Investors as Owners of a Company

Generally, it is possible to distinguish between two types of private equity investors, depending on the level of involvement during the holding period. Most firms nowadays belong to the group termed "interventionists" by Klier et al. (2009) (often also called "activists"), and have a distinctly more hands-on approach to monitoring and influencing the direction of the company than their peers, the "financial investors". Whereas the purely financial investor only monitors its portfolio firms through e.g. management accounts, interventionists often participate in a multitude of ways. They are represented on the board of directors, in many cases a partner of the private equity firm being appointed as chairman, and play an active role in developing the value creation strategies in cooperation with the management team. (Klier et al., 2009)

Despite the deepening involvement also in the operations of the portfolio firms, private equity firms are rarely involved in the day-to-day operations of the company, as they seldom have the expertize or time for the operational issues, and thus usually try not to step on the toes of the CEO. Relying primarily on the company's management team to implement the jointly defined strategy, special emphasis is put on the composition of the management team from day one. Private equity firms don't hesitate to swiftly make necessary replacements or reinforcing the management team by hiring dedicated professionals. Especially in the case of small and mid-size firm, PE firms seek to professionalize also the board of directors, bringing in industry and operations experts from their networks. (Klier et al., 2009; Nisar, 2005)

PE firms shift the financial focus from earnings to cash flows, as they know that earnings can be manipulated, whereas cash flow tells a more true story of the company's status and development. High emphasis is also put on improving the reporting capabilities and processes in order to ensure timely and accurate information flow to support decision-making. According to Rogers et al. (2002), private equity firms have some general preferences concerning the measures they track; in addition to the focus on cash, they prefer to calculate return on invested capital, rather than fuzzier measures like return on accounting capital or return on sales. “However, managers in PE firms are careful to avoid imposing one set of measures across their entire portfolios, preferring to tailor measures to each business they hold.”

In addition to crafting the general strategic direction in cooperation with the management team, private equity firms are typically also highly involved in decisions on, i.a., purchase of major capital items, acquisitions and disposals, and changes in capital structure (Nisar, 2005). They leverage their wide network of contacts with a range of companies, professionals and financial institutions to help the management team to run and develop their companies. Klier et al. (2009) go on to explain that some private equity companies build considerable industry expertise through the practice of dedicated industry teams. They also bring diverse expertise from banking, consulting and industry positions to challenge and support the management team in its work. An important benefit for a private equity professional of having an industry background is that it can build trust and empathy already from the initial negotiation stages onwards. Furthermore having deep industry expertise can build a reputation as an investor with relevant industry networks, and reduce agency costs as it enhances a firm’s ability to understand and control management’s decisions and actions. For example Cressy et al. (2007) find that industry specialization of PE firms adds substantial value by increasing the operating profitability of their portfolio companies, and thus drives up returns on investment.

A number of studies have shown that active ownership adds substantial value, i.e., interventionists reach higher returns on their portfolios than purely financial investors (e.g. (Heel & Kehoe, 2005; Klier et al., 2009; Loos, 2005). Thus, partners responsible for an individual investment spend considerable time monitoring the company and engaging with the management team. Heel and Kehoe (2005) find that in the best performing deals, partners spend more than half of their time on the company during the first 100 days, and meet almost daily with top executives. This engagement is key to developing relationships with the management team, learning to understand the business and developing consensus related to strategic priorities. After the post-deal honeymoon period, the engagement levels naturally drop, leveling at one to two days a week over the holding period even in the most active group. (Heel & Kehoe, 2005; Klier et al., 2009)

Important aspects when considering private equity firms as owners of a company are the implications that the investment horizon of three to five years, and the focus on possible exit strategies from day one, have on the setting. According to Rogers et al. (2002), the intermediate time frame “removes the often counterproductive focus on quarterly numbers yet still creates urgency to transform the business quickly”. With possible exit avenues identified and targeted, some of the strategic decisions taken may seem to be against the general advantage of the company, but make sense in terms of value seen by possible buyers. Furthermore, when the holding period is drawing to a close, the owners may be unwilling to make significant, albeit beneficial investments, in order to "make the bride pretty".

2.1.3. Introduction to Leveraged Buyouts

A leveraged buyout (LBO) can be defined as:

> *A transaction in which a group of private investors, typically including management, purchases a significant and controlling equity stake in a public or non-public corporation or a corporate division, using significant debt financing, which it raises by borrowing against the assets and/or cash flows of the target firm taken private.* (Loos, 2005)

LBOs can be classified according to which parties belong to the group making the acquisition, and the origin of the target company. For example, in a management buyout (MBO) the current management seeks support from outside debt and equity providers to assume control of a significant portion or majority of the equity of a business from its previous owners. A management buy-in (MBI) then again is a form of LBO where the managers taking over the company are outsiders. In the other dimension a distinction can be made between for example public to private and private-to-private transactions, or divisional spin-offs and secondary buyouts. (Loos, 2005)

Buyout acquisitions are as a rule financed with considerable debt, which improves returns on equity, and helps to cover the private equity firms' high management fees. Because of this buyout funds target companies where high debt makes sense. Attributes like stable cash flows, limited capital investment requirements, at least modest future growth prospects, and most importantly, the possibility to improve performance in the short to medium term, characterize typical buyout targets. Furthermore, the company's products or services are preferably well established, with strong brand power and low requirements for R&D and costly marketing campaigns. So being, firms in industries with rapid technological change are usually not attractive LBO candidates due to uncertain revenue development and possibly high operating demands on cash. (Kaplan & Strömberg, 2008; KKR, 1989)

The debt used almost always includes a senior, secured loan portion arranged by a bank or an investment bank. According to Kaplan and Strömberg (2008), in the 1980s and 1990s, banks were also the primary investors in these loans, but lately, institutional investors have purchased a large fraction of the senior and secured loans. The debt in LBOs typically also includes a junior, unsecured portion financed by either high yield bonds or mezzanine debt. (Kaplan & Strömberg, 2008)

Using the capital from the fund it has collected, the private equity firm covers the remaining 10-40% of the purchase price. The percentage varies according to how much debt leverage is used, and how big the stake of the management team is in the deal. Kaplan and Strömberg (2008) find that on average, the "CEO gets 5.4% of the equity upside (stock and options) while the management team as a whole gets 16%." However, the deals may be structured in a way that gives the management more favorable terms and prices when acquiring shares, meaning that the fraction of equity contributed by the management team may be lower than the these figures. (Kaplan & Strömberg, 2008)

2.1.4. The Buyout Investment Process

On the most aggregate level, a buyout can be said to have three distinct phases: acquisition phase, holding period, and divestment phase (Berg & Gottschalg, 2005). The acquisition phase begins with target selection, in which the private equity firm screens the market for potential investment opportunities in line with the investment strategy and criteria the firm has set for buyout targets. The partners make use of their contacts and industry knowledge to identify potential targets, and usually try to keep the negotiations private in order to avoid the attention of competing buyers. Another avenue of deal flow is auctions, which may involve several financial and strategic buyers competing for the acquisition. Auction processes generally drive up the price, and thus reduce the value capturing potential for the buyer. (Loos, 2005)

When initial negotiations with the company's owners and possibly top managers have reached a tentative agreement on mutual interest and commitment to the deal, a Letter of Intent (LOI) is signed and the private equity firm starts the potentially lengthy process of due diligence. Typical areas covered in the due diligence are legal, financial, tax and business investigations, with the comprehensiveness of the process varying depending on i.a. the size, significance and complexity of the deal in question (Loos, 2005). During the same time the investors familiarize themselves with the company, and develop a business plan for the buyout, often in cooperation with the management team (Berg & Gottschalg, 2005). These plans ultimately lead to an "investment thesis", a document summarizing the investment case from private equity firm's perspective, and most importantly, pinpointing the three to five most critical development areas creating the foundation for growth and value creation during the holding period (Rogers et al., 2002).

Negotiations on the deal and its structure are continued during the due diligence process. Probably the single most important factor in this process is the valuation of the target company, and ultimately the acquisition price. Important decisions concerning the structure of the buyout, such as the degree of debt leverage, the distribution of management equity stakes, the design of incentive systems and so forth, are also agreed upon. The phase before the closing of the deal is critical also from another perspective: in case the management team participates in the process, this is when the foundations for the relationship and trust between the private equity firm's partners and the management team are laid. Without trust and mutual understanding on what is going to happen after the ownership change, the outlook for the post-deal value creation phase cannot be said to be optimal. (Berg & Gottschalg, 2005; Loos, 2005)

Once the deal is signed and closed, the company becomes one of the private equity firm's portfolio companies, and thus begins the holding period. Implementation of the strategic, organizational and operational changes prescribed in the initial business plans begins swiftly, and the private equity company assumes control of the company, typically with board representation as the key avenue of influence on managerial decisions. In practice, the implementation of the development plans is often much more of an iterative as a straightforward process, during which the business plans are constantly updated. (Berg & Gottschalg, 2005)

Being only a temporary owner, the private equity firm finally initiates the divestment phase to realize the returns of the investment. The typical LBO has a planned investment horizon of three to five years, which can be prolonged if necessary, for example due to lack of exit avenues or unfavorable market conditions. Historically, the most common route of exit has been a trade sale to a strategic buyer (38% of all exits), with secondary buyouts – i.e. a sale to another private equity fund, typically a bigger one – assuming second place (24%). Initial public offerings (IPOs), where the company is listed on a public stock exchange, account for 14% of exits. (Kaplan & Strömberg, 2008) In case of an unsuccessful investment, bankruptcy procedures may take the place of the exit. Jensen (1989), however, finds that the nature of the buyout as a privately negotiated transaction makes it far easier to re-negotiate debt repayment terms and covenant levels between lenders and shareholders, and bankruptcy can therefore be avoided in many cases.

Figure 2 summarizes the buyout investment process phases.

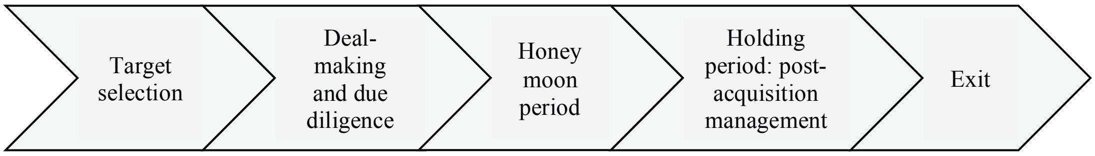

Figure 2: Overview of the buyout investment process

2.2. Value Creation in LBOs

In the following chapters, the logic of growing the value of a company, and the general sources of value generation in LBOs are examined in more detail. The structure of this examination is based primarily on the conceptual framework and categorization of value creation and value capturing focus areas developed by Berg and Gottschalg (2005), supplemented by findings from other studies.

2.2.1. Growing the Value of an Acquired Company: Value Definition

From the perspective of a private equity firm, what constitutes as value generation in a buyout is the appreciation of the equity value of the business in question during the holding period. As Berg and Gottschalg (2005) show, the equity value (EV) of a company can be decomposed into four distinct components, leading to the following equation:

*Equity Value = Valuation Multiple * Revenues * Margin – Net Debt*

This means, that in order to grow the enterprise value of a business, private equity firms need to be able induce positive development in at least one of these aspects. Berg and Gottschalg (2005), in referring to the earlier work of Gottschalg et al. (2004), posit that based on this equation, a distinction between two basic classes of value generation can be made, “value capturing”, and “value creation”.

The first type of value increase is captured by the valuation multiple component of the equation. The multiple can be affected by, e.g., changes in expectations regarding the future performance of the business or an entire industry, and can thus occur without any real change in the underlying financial performance of the business. What is essential to understand with regard to the idea behind value capturing is that, although a company can actively influence the valuation multiple by for example positioning itself well in the market or trying to change the industry structure through its own actions, a bulk of the increases in the valuation multiple may be fully unrelated to the firm’s behavior. Thus, when the value of a PE firm’s portfolio company increases during the holding period in part because of e.g. increases in the valuation multiples of comparable companies, it can be said that the PE firm has *captured* value in the LBO. Berg and Gottschalg (2005) state that this value capture originates mainly from financial arbitrage based on changes in market valuation, private information about the company, superior market information and superior deal-making capabilities. (Berg & Gottschalg, 2005; Gottschalg et al., 2004)

Value creation, on the other hand, is directly linked to fundamental changes in the financial performance of the business. This can be either in the form of improvements in the company's revenues or margins, or reduction of capital requirements. According to Berg and Gottschalg (2005), "Such a change stems from factors such as improvements in operating performance (revenue growth, improved operating margin, etc.), reduced cost of capital (optimization of capital structure, better financing terms etc.), or the freeing-up of resources through a reduction in the required fixed or current assets." These drivers of value creation, discussed in more detail in the following chapter, can be further subdivided into primary and secondary levers. The primary levers, with a direct bottom line effect, can be induced through improvements in financial engineering, operational effectiveness and strategic distinctiveness. The secondary levers, then again, have no direct impact on the financial performance or cash flow generation of a company, but can bring about enhancements in one or more of the primary levers. The secondary levers include factors such as reducing agency and supporting activities, like mentoring and use of personal networks by the private equity firm. (Berg & Gottschalg, 2005)

2.2.2. Primary Levers of Value Creation in LBOs

Financial Engineering

Financial engineering is one of the most widely acknowledged and discussed primary levers of value creation in the context of leveraged buyouts. The whole concept of the acquirer borrowing a major portion of the purchase price from a variety of financial institutions highlights the significance of financial engineering. During the acquisition process, private equity firms use their expertise and knowledge of the capital market mechanisms to create to optimize the capital structure of the target company, and then continue to share their expertise with the company management after the deal (Anders, 1992). They use their reputation and intimate contacts to financial institutions to negotiate favorable terms for the financing, often also creating competition among the institutions to bring down the costs of debt (Cotter & Peck, 2001; Kaplan & Strömberg, 2008). After the ownership change, the PE firm often takes over most important negotiations on bank loans, bond underwritings, possible initial public offerings and subsequent stock sales. They, as repeat players in the debt markets, are likely to reduce agency costs of debt and costs of financial distress (Jensen, 1989).

One major benefit of high debt leverage is the tax shield it creates (Kaplan, 1989; Singh, 1990). Also, when increasing the portion of debt in a company's finances, it brings down the company's weighted average cost of capital (WACC), as debt has a lower cost of capital than equity.

The principle disadvantage of high leverage can be said to be the fact that it increases exposure to external shocks and financial distress when facing for example decreases in demand, escalating interest rates or an economic downturn (Singh, 1990). Furthermore, high leverage with high financing costs can make the managers excessively risk-averse and short-term oriented, leading to a loss of long-term competitiveness (Loos, 2005). However, a number of studies (i.a. Achleitner, Braun, & Engel, 2010; Brigl et al., 2008; Loos, 2006) examining the importance of leverage in LBOs have shown that it does play a considerable role in explaining the returns of private equity firms by boosting the return on equity. For example, in the study and sample of Achleitner et al. (2010), the leverage effect accounted for approximately one-third of the overall value creation, which, on the other hand, means that two-thirds can be attributed to operational improvements and changes in valuation multiples.

Increasing Operational Effectiveness

A substantial amount of research shows that buyouts have a positive effect on the operational performance of target companies (Kaplan, 1989; Lichtenberg & Siegel, 1990; Long & Ravenschaft, 1993; Phan & Hill, 1995; Singh, 1990). A private equity firm has a range of options to increase the resource efficiency and operational effectiveness of its portfolio companies. Berg and Gottschalg (2005) categorize these levers into "cost cutting and margin improvements", "reducing capital requirements", and "removing managerial inefficiencies".

Cost cutting and margin improvements

In trying to reduce costs and improve margins private equity firms often substantially change the way a portfolio company's operations are organized and managed (Muscarella & Vetsuypens, 1990). They initiate cost cutting programs, tighten the control on spending, reduce overheads, increase the degree of outsourcing, and try to cut on bureaucracy (Anders, 1992; Easterwood et al., 1989; Kaplan, 1989; Lichtenberg & Siegel, 1990; Muscarella & Vetsuypens, 1990). As LBOs are likely to occur in companies with high cash flow generation, but possibly low alternative investment opportunities, bad investment decisions are often reduced because of the increased pressure of paying off debt and interests (Kaplan, 1989). Despite general belief that LBOs result in wide dismissals of employees, studies show that after the possible initial reduction in employment, employment levels actually on average tend to rise rapidly, especially in management buyouts (Wright et al., 2009).

Reducing capital requirements

In addition to cost cutting measures, private equity firms also bring about changes that reduce capital requirements, and release capital for growth and debt repayments. They seek to improve asset utilization by e.g. more effective working capital management through acceleration of inventory turnover and collection of receivables and through extension of payment periods to suppliers (Easterwood et al., 1989; Kester & Luehrman, 1995; Long & Ravenschaft, 1993; Muscarella & Vetsuypens, 1990; Singh, 1990). Also, divestment of low-synergy assets and ceased spending on poor investment decisions reduces capital requirements. According to Bloom et al. (2009), private equity ownership is associated with strong operations management practices, employing lean manufacturing, continuous improvement and monitoring practices to a higher degree than comparable government, family and privately owned firms (difference to publicly listed firms also detected, but not statistically significant in their study).

Easterwood et al. (1989) give a reminder, however, that restructuring an organization and creating large operational changes may also lead to negative consequences, and lost competitiveness, if orchestrated in wrong ways. Furthermore, Wright and Robbie (1996) hypothesize that as businesses in general are developing better practices to increase efficiency and cost control, the possibility for private equity firms to manufacture significant short-term benefits from restructuring may be dwindling.

Removing managerial inefficiencies

In addition to improving management practices in their portfolio companies, private equity firms also tend to, more often than not, make significant changes in the composition of the management team itself. Removing the cause of a company's low performance by replacing poor performing managers can be seen as another avenue into improvements in operational effectiveness. (Anders, 1992; Berg & Gottschalg, 2005)

PE firms are also known for their tendency to produce ambitious business plans and thus raising the standards for management performance (Baker & Montgomery, 1994). Through the aggressive targets and increased risk of financial distress due to higher leverage, the new owners are forcing portfolio company managers to work harder to reach the goals and to reach budgets, thereby eliminating some of the managerial inefficiencies (Anders, 1992; Easterwood et al., 1989). Furthermore, the changes in governance structures, aggressive target setting, incentives, and increased accountability for performance generally also increase managers' willingness to take even rather difficult and unpopular actions if required (Singh 1990).

Increasing Strategic Distinctiveness

Private equity firms do not only rely on operational improvements to create real value during the holding period, but put in great effort to form more distinctive and competitive strategies for their portfolio companies. LBOs often lead to redefinition of target markets, product lines, pricing strategies, distribution channels, and other key strategic aspects (Berg & Gottschalg, 2005). What is commonly seen is that a company refocuses its strategy and reduces complexity of its organization and operations (Phan & Hill, 1995). Non-core and non-competitive businesses are sold off (Anders, 1992; Muscarella & Vetsuypens, 1990; Singh, 1990), and resource allocation priorities are revised to match the new strategic direction (Easterwood et al., 1989).

However, important as they are, efficiency boosting strategic and operational changes are no longer the sole focus in LBOs (Wright et al., 2001). Strong growth is often key to high value creation, and e.g. Singh (1990) confirms that buyouts on average experience significantly higher revenue growth during the holding period than comparable publicly listed companies. The investment horizon being limited, buyouts often seek growth through add on acquisitions, where the company acts as a platform for a "buy-and-build" strategy. Especially in fragmented markets, a private equity firm executing this type of a strategy may be able to consolidate and restructure the whole market in its advantage, reap synergy advantages and reach a critical mass to be floated on the public stock market, or to arouse the interest of trade acquirers and bigger private equity firms. (Loos, 2006; Wright et al., 2001)

Changes in a portfolio company's strategy, despite implemented only after the acquisition, are often planned already before the closing of the deal, sometimes by the private equity firm alone, but more often in interaction with the management team. The investment thesis, crafted before the acquisition by the PE firm, usually outlines three to five key (strategic) development themes, and forms a basis for the strategic direction of the portfolio company. However, these plans are often subject to changes after the deal, during the holding period, as the portfolio company faces new opportunities and challenges, and as the partners of the private equity firm gain deeper understanding of the company and its markets. (Berg & Gottschalg, 2005)

2.2.4. Secondary Levers of Value Creation in LBOs

As the previous chapters show, private equity firms strive to create value in LBOs in a multitude of ways, ranging from financial and operational engineering to improving the portfolio companies' strategic focus. However, many of these levers have always been there, already before the LBO, waiting for the managers of the company to take a tug on them. Why then are these actions only taken after the private equity company comes along? What aspects of the situation change in an LBO facilitating the application of these primary value creation levers? Again relying on the conceptual framework and categorization of Berg and Gottschalg (2005), this chapter will answer these questions by introducing the secondary levers of value creation in LBOs.

Reducing Agency Costs

Agency theory argues that there is an inherent conflict within a corporation, arising from diverging goals of the company's owners and their professional managers. Agency costs are present when "one or more persons (principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent" (Berg & Gottschalg, 2005). The assumption that both parties are maximizing their individual utility leads to a conclusion that the agent does not always act in the best interest of the principal. The changes in organizational structure and ownership that become possible in the context of buyout allow for a significant reduction in agency costs arising from, i.a., misalignment of incentives between managers and owners, challenges of monitoring managers' decisions and actions, and information asymmetries (Jensen, 1989; Sarah Kaplan, 1989; Opler & Titman, 1993).

The three main ways of reducing agency costs in the context of LBOs – reducing agency costs of free cash flow, improving incentive alignment, and improving monitoring and controlling – are examined in closer detail below. (Berg & Gottschalg, 2005)

Reducing Agency Costs of Free Cash Flow

In addition to creating direct value, as discussed earlier, the financial leverage used in LBOs significantly limits management discretion by compelling managers to service debt payments rather than spending free cash flows inefficiently within the firm and on corporate expenditures (Jensen, 1989). The debt burden incentivizes managers to work harder, make better investment decision, and to run the company more efficiently, in order to avoid a costly bankruptcy (Cotter & Peck, 2001).

Increased leverage also acts as an additional governance mechanism, as lenders start to monitor management's actions closer to ensure the company will fulfill its repayments. The repayment schedule and other debt covenants can be seen as a sort of operational budget, which imposes additional constraints on management's discretion (Baker & Montgomery, 1994; Lichtenberg & Siegel, 1990).

Improving Incentive Alignment

The incentive structures used in LBOs are such that there is an extremely high degree of incentive alignment between the investors in the fund, the PE firm, and the managers of the portfolio companies (Baker and Montgomery 1994). The structures rely on both "carrot" and "stick" mechanisms to reduce the agency conflict after the acquisition (Jensen, 1989; Lichtenberg & Siegel, 1990).

In private equity firm portfolio companies managers are not only provided with bonus and stock option incentives, that materialize if the company performs according to or above plans, but are encouraged, if not forced, to become co-owners by investing a significant amount of their own money in the company (Baker & Montgomery, 1994; Muscarella & Vetsuypens, 1990). This way, they do not only take part in the upside potential, but also in the possible downside risk, which increases the personal costs of inefficiency and failure (Berg & Gottschalg, 2005; Loos, 2005). Demanding substantial equity holdings from top management is especially suitable as an incentive system in the context of LBOs because, despite illiquidity during the holding period, the liquidation date is quite foreseeable due to the limited investment horizon (Baker & Montgomery, 1994; Kaplan & Strömberg, 2008). Furthermore studies, e.g. Halpern et al. (1999), indicate that LBOs have significantly higher managerial share ownership than those involved in traditional acquisitions of listed corporations. Also, firms going private have higher board and CEO ownership levels (Wright et al., 2009). An additional benefit of the equity share model is that it locks the key managers into the company for the whole holding period. On the downside however, as with high leverage, increasing managerial ownership can result in a decreased financial performance due to managerial risk aversion (Loos, 2005).

In addition to increasing equity ownership among the top management, private equity firms increase pay-to-performance structures for a larger number of employees to step up motivation (Jensen, 1989). These schemes are not necessarily only restricted to upper and middle management, but may be extended even deeper into the organization. Wright and Robbie (1996) provide empirical evidence that incentives do help to reduce managerial opportunism; in their study the use of incentives was shown to be negatively correlated with MBO failures.

Improving Monitoring and Controlling

In the governance structure generally used in the LBO setting, the private equity firm essentially acts as an intermediary between shareholders (the investors in the fund) and management teams of the individual portfolio companies. According to Loos (2006), from a corporate governance point of view, the General Partners "must be seen as a hybrid between managers (or 'agents') and owners (or 'principals')." With respect to the managers of the LBO fund's portfolio companies, the private equity firm partners or associates act as both additional professional managers by adjusting strategic and operational objectives as well as legal representatives of the shareholders. They are in a position to closely monitor the management of the portfolio company, supported by the carefully tailored financial structure for their controlling. (Loos, 2005)

The involvement in the monitoring of management as members of the board offers the private equity firm's partners the chance to get direct access to confidential company information. This makes it easier to monitor the ongoing operations as well as to evaluate longer-term strategies, and their implementation (Anders, 1992; Cotter & Peck, 2001). This monitoring and control function of the LBO firm has been seen as one of the principal capabilities of the LBO organization (Baker and Montgomery 1994). One particularly important aspect of control over the portfolio company is the owner's right to determine the composition of the top management team.

It has been suggested that efficient corporate governance mechanisms create a substitute for high debt. Portfolio companies, where the private equity firm controls a majority of the post-LBO equity, tend to have less debt and are less likely to experience financial distress. Buyout specialists that closely monitor managers through stronger representation on the board also on average use less debt in their LBOs. Active monitoring by the general partners substitutes for tighter debt terms in monitoring and motivating managers of LBOs. (Cotter & Peck, 2001)

Mentoring

With their extensive background and expertize in areas such as finance, acquisitions, consulting and certain industries, and being intimately involved in their portfolio companies' operations, private equity professionals also bring in substantial knowledge into the businesses. Also a part of this "parenting advantage", is that private equity firms open up their wide professional networks for the use of the management team, frequently also recruiting outside advisors with industry expertise into the company (Loos, 2005). Thus, private equity firms can support the value creation in their portfolio companies in various ways.

Restoring entrepreneurial spirit

An important driver to increased growth and efficiency is often related to the revived entrepreneurial spirit, commonly lacking in companies acquired in buyouts. The company may have been e.g. a peripheral, non-core business unit of a bigger conglomerate, which is then relieved from the constraints of the corporate headquarters, and given more freedom in terms of decision rights as well as investment opportunities (Jensen, 1989; Kester & Luehrman, 1995; Loos, 2005; Singh, 1990). The renewed corporate governance structure has elements resembling that of a startup firm, where top managers enjoy high levels of equity (Loos, 2005). What is more, the intimate relationship between the private equity firm's partners and the management team also often improves and simplifies communication. Knowing that the partners are just a phone call away, willing to discuss important decisions, makes it possible for the management to reach decisions more quickly, and often also more freely and independently (Kester & Luehrman, 1995). The energized and motivated management team, taking ownership of the challenges and development plans of the company, are also more willing to take difficult decisions regarding e.g. divestments, layoffs and strategic redirections to make the buyout a success.

Private equity firms encourage their portfolio companies to drastically change the way they conduct business, if a strategic innovation has a high likelihood of success (Wright et al., 2001). Studies have shown increases in new product development, technological alliances, R&D and new business creation activities taking place after buyouts (Loos, 2005). Wright and Robbie (1996) show that this kind of increased corporate entrepreneurship is also positively associated with improvements in company performance.

Advising and enabling

An important aspect of the parenting advantage of belonging to the family of a particular private equity firm is the knowledge the general partners bring to the company through constant constructive interaction, mostly informal and non-bureaucratic by nature. While mostly staying away from operational, day-to-day issues, the private equity team takes an active role in strategy development, challenging the management team's vision and views and bringing in new perspectives. They are, on average, much closer to the managers, especially the CEO, than the conglomerate headquarters or the board of directors in traditional organizations.

When embarking on an aggressive growth path, private equity firms also bring in the needed financing that enables, e.g., add-on acquisitions. With substantial knowledge and experience on deal making and acquisition processes as a whole, they help the management team to plan and execute the buy-and-build strategy in a way that would not have been possible without them (Loos, 2005).

Private equity firms, in having seen a wide array of different companies, also accumulate a deep understanding of effective ways of working, e.g. in the context of the board of directors and its interplay with the management team. The partners are also in a good position to advise the CEO on matters such as teamwork between the managers, especially if a management audit was made during the due diligence process. And ultimately, if it seems that the some management team members are not pulling their weight, private equity firms are on average more trigger happy in finding replacements.

One significant value adding benefit comes from the private equity firm's network of contacts in various industries, especially in the financial and consulting circles, which are often exploited to the benefit of the portfolio company. In the words of Berg and Gottschalg (2005), "Be it to find a business partner, to search for and to recruit a new manager for the portfolio company (headhunting services) or to identify potential targets for the buy-and-build strategy, contacts of the buyout firm may be an important success factor for the portfolio company." (Berg & Gottschalg, 2005)

2.2.5. Summary of Value Generation Methods in LBOs

Table 1 summarizes the value generation methods discussed above. The table is adapted from Berg & Gottschalg (2005), with additions (marked with *) made based findings from other articles.

Table 1: Levers of value generation in LBOs (adapted from Berg & Gottschalg (2005), additions annotated with *)

LEVERS	PHASES			CAUSES		
	Acquisition	Holding	Divestment	Value capturing	Value creation	
					Primary	Secondary
Financial arbitrage						
...based on changes in market valuation	x		x	x		
...based on private information about the company	x		x	x		
...through superior market information	x		x	x		
...through superior deal making capabilities	x		x	x		
Financial engineering						
Optimizing the capital structure	x	x			x	
Reducing corporate tax	x	x			x	
Negotiating better loan terms*	x	x			x	
Increasing operational efficiency						
Cost cutting & margin improvements	(x)	x			x	
Reducing capital requirements	(x)	x			x	
Removing managerial inefficiencies	(x)	x			x	
Increasing strategic distinctiveness						
Refocusing corporate strategy	(x)	x			x	
Reducing complexity of organization*	(x)	x			x	
Organic and inorganic growth*		x			x	
Reduction of agency cost						
Reducing agency cost of FCF	x	(x)				x
Improving incentive alignment	x	x				x
Improving monitoring and controlling		x				x
Mentoring						
Restoring entrepreneurial spirit	x	x				x
Advising and enabling	x	x				x
Utilizing wide professional networks*	x	x				x

In accordance with the scope of this research, the levers of value capturing (i.e. financial arbitrage) are left largely out of focus in this study. Effective planning and management of the post-deal honeymoon period aims at value creation, through both primary and secondary levers, and thus the focus here is on the acquisition and holding phases, not on the divestment process.

2.3. Synthesis of the Literature Review

2.3.1. Private Equity and Value Creation in LBOs

Private equity, as defined by Sharp (2001), is “The provision of equity capital to companies whose shares are not listed on a recognized stock exchange”. A leveraged buyout, then again, is defined by Loos (2006) as “A transaction in which a group of private investors, typically including management, purchases a significant and controlling equity stake in a public or non-public corporation or a corporate division, using significant debt financing, which it raises by borrowing against the assets and/or cash flows of the target firm”.

PE companies are only temporary owners of companies, seeking to divest their investments usually in three to five years. This limited ownership period has a significant impact on the dynamics of the situation. It i.a. heightens the importance of the start of the holding period and of charting possible exit avenues already at time of the deal-making period. Furthermore, it also makes it easier to get key managers to commit financially to the company, leading to better incentive alignment between all key parties. (Rogers et al., 2002; Jensen, 1989; Sarah Kaplan, 1989; Baker and Montgomery, 1994; Heel and Kehoe, 2005)

PE firms seek to induce an appreciation of the equity value of the business during their holding period. Berg and Gottschalg (2005) categorize the ways of value generation into levers of value capturing, and levers of value creation. Value capturing is based mainly on financial arbitrage through changes in market valuation, private information about the target company, superior market information or superior deal making capabilities. Value creation levers then again include financial engineering, increasing operational efficiency, increasing strategic distinctiveness, reduction of agency cost, and mentoring the managers. Studies (e.g. Kaplan 1989; Loos, 2006; Ernst&Young, 2012; Achleitner et al., 2010; Heel & Kehoe, 2005; Klie et al., 2009) have shown that the superior returns of buyout funds are increasingly the result of PE firms taking an active role in their portfolio companies during the holding period. Furthermore, these studies indicate that the core of value creation has increasingly shifted from financial and governance engineering towards value created by operational and strategic improvements.

2.3.1. The Planning and Management of the Post-deal Period

The increasing importance of operational and strategic improvements as value drivers in LBOs highlight the general significance of active management and mentoring on behalf of the private equity company. Also, keeping the limited investment horizon in mind, ensuring a smooth yet rapid transition and “learning to work together” phase creates a foundation for success in light of the whole holding period. Furthermore, the sooner a company can implement the planned value creating changes, the bigger the upside effect on returns on investment.

Because of this common knowledge of the importance of a good start to the post-deal holding period, the concept of "100-day programs" has spread from the world of mergers and acquisitions also into private equity. For example all of the handful of private equity professionals interviewed by Schwetzler (2007) confirmed that 100-day plans and programs are commonly used in LBOs today, and that they are likely to gain further importance in the future. However, the interviewees did stress, that like LBO investments in general, 100-day programs can hardly be fully standardized, but the measures applied depend on the situation and characteristics of the individual investment.

Heel and Kehoe (2005) also report that distinctive to the best-performing LBOs is that the private equity firm's partners simply devote more hours during the initial stages of the deal. They spend more than half of their time on the newly acquired company during the first 100 days, meeting almost daily with the top executives. The time spent with the key players is essential for reaching a consensus on the company's strategic priorities. Also, this is when relationships are built and personal responsibilities detailed. In contrast to the success stories, lower-performing deals typically took up only 20% of the partners' time during this crucial period. What, according to the authors, also distinguishes the best performers is that they seek out expertise during the deal-making process before committing themselves to the company, craft better value creation plans and execute them more effectively, and implement performance management systems with an appropriate set of key performance indicators. (Heel & Kehoe, 2005)

As the private equity literature is yet to develop frameworks for planning and managing the start of the holding period, Table 2 dissects the value generation drivers introduced in the previous chapters into measures *likely* to be taken during any LBO honeymoon period. This is nothing but an initial listing used as a thematic foundation for the empirical research, which will then broaden our understanding of the subject. Also, the focus here is on the areas that drive value creation after the deal is closed, thus leaving the value capturing levers, i.e. financial arbitrage related factors, out of the treatment.

Table 2: Likely pre- and post-deal measures taken by PE firms in LBOs

Source of value creation	PRE-DEAL PHASE: A PE firm is to…	POST-DEAL PHASE: A PE firm is to…
Financial engineering	• Determine the optimal capital structure for the company • Lead loan negotiations with financial institutions • Be cautious of excess leverage creating financial distress, managerial risk-aversion and short-term orientation	• Lead relationships with financial institutions • Transform focus from earnings to cash flow
Increasing operational effectiveness	• Plan cost cutting and CAPEX reducing measures (due diligence provides additional input) • Assess the management team's competencies (management audit), and make changes as soon as possible • Create a 100-day plan	• Form detailed plans and execute cost cutting and CAPEX reducing measures in cooperation with management • Continuously assess the management team's competencies, and make replacements or additions when needed • Detail and implement the 100-day plan
Increasing strategic distinctiveness	• Accumulate deep market, industry, competitor and company-specific knowledge to be able to form individual opinions on strategic questions (due diligence) • Define an investment thesis with 3-5 key value creation themes and outline potential exit routes • Develop an initial shared vision and strategic direction with the management team • Plan an organizational structure that supports and is in line with the strategy and value creation plan	• Start executing the value creation plan outlined in the investment thesis • Develop and implement a detailed strategic plan with the management team • Adjust the organizational structure to support the strategy and value creation plan
Reduction of agency cost	• Encourage / force top management and other key people to invest a significant amount of own capital • Extend ownership to lower levels of the organization • Design comprehensive incentive systems, emphasizing pay-to-performance structures • Ensure all necessary information flows to the general partners and the board • Determine the structure and appointments of the board of directors and the management team • Clarify, on a broad level, the reporting practices and key performance indicators • Build trust and personal relationships to ensure efficient cooperation with the management team	• Create ambitious business plans and strategic and operational goals for managers • Ensure all necessary information flows to the general partners and the board of directors • Agree on reporting practices and key performance indicators, and make sure every party adheres to them • Build trust and personal relationships to ensure efficient cooperation with the management team
Mentoring	• Accumulate knowledge on the management team's ways of working and the strengths and weaknesses of its	• Make sure that the management team, despite the newly designed control mechanisms, has the necessary

	individual members (possible management audit)	freedom to reach decisions quickly and work independently • Accumulate knowledge on the management team's ways of working and the strengths and weaknesses of its individual members • Act as a mentor and enabler on areas where it has considerable expertize (e.g., financing and add-on acquisitions) • Make use of its professional networks in assisting the management team

3. Research Methodology

3.1. Research approach

As the literature review showed, very little is known about how private equity investors plan and manage the post-deal honeymoon period in their portfolio companies. Thus, the empirical research conducted was mainly exploratory by nature, trying to uncover the approaches employed by one Finnish PE investor across multiple portfolio firm acquisitions.

Case study was selected as the research method due to its particular suitability for studying the "how" and "why" questions and for creating understanding of contemporary complex social phenomena (Yin, 2009; Yin, 2003). As all actions of PE investors are highly context-dependent, it is important to understand the pre- and post-deal phases in a holistic manner in order to be able to draw conclusions, detect patterns and build theory. Interviewing the case PE firm's ("Deep Blue") representatives without the questions being tied to particular cases would have resulted in more abstract discussion with less clear answers especially to why things were done in a certain way. Studying multiple cases from both Deep Blue's and the portfolio companies' managers' perspectives brings forth the context-dependencies, gives strength to the findings, and better enables the evaluation of the methods employed by Deep Blue's partners in planning and managing the post-deal honeymoon period. (Yin, 2009)

Case descriptions were written on the basis of the interviews and other secondary data. These descriptions of what was done, the effects, challenges and successes, formed a basis for cross-case comparisons, analyses, and results.

3.2. Data collection methods

Before launching into conducting the case-specific interviews, all partners of the PE firm were interviewed about the area of research on a general level. The intention was to get more familiar with the subject and to be able to create a loose frame for the interview questions. Also the findings from the literature review were utilized when forming the structure and questions for the actual case interviews. However, the structure was used mainly as a general interview guide (Patton, 2002), that helped to ensure that all participants were interviewed in a more systematic way from the start, without limiting the issues to be explored to a certain fixed set of questions. The interview instrument, validated with experts from both Deep Blue and Aalto University, was also constantly developed further as the case-specific study progressed and new themes emerged.

The primary data was collected in open-ended semi-structured interviews conducted face-to-face individually with each interviewee. In each of the five cases (summarized in Table 3 of chapter 3.3.) the interviewees included two partner-level members of Deep Blue’s deal teams, and two or three management team members from the buyout target's side. All partners were interviewed first before moving on to interviewing the managers. Including the perspective of the management team in the study was critical. People are often blind to their own actions and mistakes, so had the study relied only on the PE firm's representatives' accounts, many themes requiring development would never have emerged.

All in all 23 case interviews were conducted, all of which were recorded and transcribed. The length of the interviews ranged from 45 minutes to two hours, with the variation stemming from differences in factors such as complexity of the case company's situation, how well the post-deal period had gone, and the position and personality of the interviewee. All interviews were conducted in Finnish.

Data triangulation was done using secondary data such as investment memorandums, due diligence reports, board minutes, internal information presentations, press releases and board documents and presentations.

3.3. Sample selection

The Case PE Investor

The case PE investor, "Deep Blue", is a Finnish private equity firm focusing on acquiring and actively developing Finnish SME companies. Deep Blue has no specific industry focus, but does majority buyout investments in a variety of different industries. Turn-around investments are beyond its scope, while the investment strategy emphasizes growth opportunities and strong cash flow.

Deep Blue employs some 15 professionals with expertise ranging from finance and consulting to CEO positions. The acquired portfolio firms are managed by a deal team assembled case-specifically from the partners and employees of Deep Blue, sometimes reinforced by trusted outside advisors.

Deep Blue is yet to develop a standardized way of planning and managing the post-deal honeymoon period when acquiring a new portfolio company. How things are done thus depends a lot on who the deal team members are, how they are accustomed to operating, and how well the assembled deal team itself functions as team. Some tools – such as frameworks for carrying out or facilitating a strategy formulation process, and templates for corporate governance documents and CEO board reporting – have been built to bring unity into the ways of working. However, these tools are seldom utilized due to various reasons, such as their rigidity or excessive scope and detail, the tools not being up-to-date, everyone not agreeing on the principles they stand for, or simply because not everyone knows about the existence of these instruments. No tools or frameworks have been created to depict the whole process of planning and managing the post-deal honeymoon period on a broader scale.

The Case Companies

Because of the broadness and complexity of the studied phenomenon, it was important that the number of cases was sufficiently large to bring forth the main context-dependencies, while also taking into account the limited time-frame and resources available for conducting the study. The five case companies were chosen with the intention of ensuring a required level of differences in dimensions such as company size, extent of post-deal changes, successfulness of the venture, and the PE firm’s team members involved in the deal team. These differences are summarized in Table 3 below.

Table 3: Case companies and interviewees

	Company A	Company B	Company C	Company D	Company E
Relative size at time of deal	Small	Large+	Large	Medium	Large
Merger of two or more firms at time of transaction	Yes	Yes	Yes	No	No, although deeper integration demanded
Business type	B2B services	B2B services	B2C	B2B services	B2B
Deep Blue's partner-level deal team members	Partners A & B	Partners C & D	Partners E & F	Partners D & F	Partners A, C & G
Interviewed managers	CEO & CFO	CEO, CFO & former CEO of smaller firm	CEO & former CEO	CEO, current CFO& CFO at time of deal	CEO, CFO & COO
Secondary data used	Investment memorandum (IM), board minutes and other documents, post-deal presentation to managers, internal announcement document	DD reports, IM, board minutes and presentations, press release, announcement presentation, strategy process documents	IM, board minutes, press release, announcement presentation	DD reports, IM, board minutes and other documents, announcement presentation, press release, strategy process documents	DD reports, IM, board minutes and other documents, announcement presentation, press release, strategy process documents

The interviewees were chosen on the basis of who were the managers who had been most involved in the deal-making process, and who had been in closest contact with the PE firm during the post-deal honeymoon period.

To gain an understanding of the differences in ways of working between the PE firm's individual deal teams and their members, it was important to study cases with different compilations of deal team members. Only this way was it possible to uncover the common policies of the firm, but also the aspects that were handled differently by the individual partners and teams.

3.4. Data analyses

When analyzing the data, the transcribed interview responses and findings from other sources were grouped according to themes that had emerged during the study. These themes included issues such as relationship building, board work, strategy formation process, development of reporting practices, financing issues and agreeing on ways of working and practicalities. This grouping of the data, in addition to being an important result of the study per se, was then used when writing the individual case descriptions.

Both within- and cross-case analyses were conducted. The process of writing detailed case write-ups allows for the emergence of unique patterns of each case before generalizing these patterns across cases. It also ensures the researcher's familiarity with each case, which in turn forms the basis for performing the cross-case analyses (Eisenhardt, 1989). The main reasons for conducting cross-case analyses are to increase generalizability, deepen the understanding of the context-dependencies, and increase the explanatory power of the conclusions made (Miles & Huberman, 1994).

3.5. Reliability and validity of the research method

When considering the generalizability of these results, it is important to keep in mind that this was a study of one single PE firm concentrating solely on the Finnish SME buyout market without any specific industry focus. The question of how factors such as increasing buyout target size, possible industry focus and differences in the PE firm's modes of operation would impact the findings is largely left for future studies to explore.

There is also great ambiguity related to the concept "post-deal honeymoon period" itself. Where does this honeymoon period end? What are the main features that distinguish it from the phase beginning after it? The answers to these questions are not clear-cut despite the fact that all of Deep Blue’s partners and also the management interviewees acknowledged that the phase immediately after the deal carries a particular meaning and significance. Most of the interviewed Deep Blue’s partners were of the opinion that the often mentioned first 100 days cannot be used as a standard timeframe for the honeymoon period – it can often span much longer than that. This ambiguity related to the length of the honeymoon period was not considered a hindrance, as the subject and the themes it entailed were approached in a more indirect and broader manner in the interviews. The objective was to determine what the honeymoon period entails – how long it lasts was considered a secondary issue.

As the primary data used in this study relied fully on interviews, the data is naturally subject to bias resulting from i.a. incorrect memories, or the interviewees not wanting to admit their mistakes. To tackle the possible problem of false memories, data triangulation was performed with the help of secondary data sources specified above in Table 4. Also, to ensure that as many challenges and mistakes as possible were to arise in the interviews, each case study contained the perspective four to five interviewees.

What was initially a big concern was that the managers might not feel comfortable giving feedback on the actions of their superiors (Deep Blue's deal team members were all members of the boards of the case companies). To mitigate this possible challenge, the researcher tried to emphasize his status as a student and downplay his direct connection to Deep Blue. The interviewees were also promised that certain pieces of feedback were to be kept confidential and not conveyed directly to Deep Blue, at least with any names attached to them. This concern of managers not wanting to talk about the challenges and development needs was, however, largely found unnecessary – most managers talked very openly about things they wished had been handled differently.

4. Case Studies of Five SME Buyouts by a Finnish PE Investor

4.1. Case Descriptions

Next follows descriptions of the five buyouts examined in this study. The objective here is to give a sufficiently detailed account of the characteristics of each case company, the situation at the time of the transaction and what was done during the following months, so that the reader is able to get a feel for the context-dependencies and development themes present in different buyouts. Each case description emphasizes slightly different aspects, and thus do not all necessarily discuss the same themes.

4.1.1. Case Company A

The pre-deal period

At the time of the transaction, Company A was formed from what were initially two separate firms providing complementary services. The two firms were to create a platform for further organic and inorganic growth. Thus, this case exemplifies a typical buy-and-build strategy, where a PE investor seeks to induce consolidation and build a strong position in a fragmented market by uniting a large number of small companies.

According to the interviewees, it was clear already before the closing of the deal that day-to-day work and routines were not going to be impacted much. The then current managers would still be the ones in charge of the operative business. What Deep Blue required, however, was the formation of a group structure, which also meant creating group-level finances and reporting. There was also to be cooperation between the two units in matters such as quality and best practices, but there were no clear plans on how the cooperation was to be organized. The vision of where the company was to be at the time of exit was also discussed with the managers, but was mainly the creation of Deep Blue's deal team. No explicit 100-day plan or equivalent road map for the honeymoon period was made.

The post-deal period

How the post-deal period was begun in Company A was somewhat atypical in comparison to the other case companies. As both Deep Blue's deal team and the management teams of the two units acknowledged the sensitivity of the situation due to a number of factors (reasons not disclosed here), the announcement event was held as late as two weeks after the closing of the deal. This way it could be shown to the organization that nothing really was to change in their day-to-day work. Deep Blue's team didn't attend the briefing events, as it was deemed better that their role be downplayed as much as possible. The CEOs of the two units were, however, instructed by the deal team on how to conduct the announcement event, and what questions were most probably going to arise.

It was agreed upon already before the deal, that it would be best to preserve the entrepreneurial status of the units, with the units being lead by their current CEOs and managers. A real group-level management team was to be formed only after further add-on acquisitions. The first new person to be recruited was the Group CFO, whose job was to start building tighter system integration and better group-level reporting.

After the first add-on acquisition one of the unit CEOs was made the CEO of the Group. The newly formed management team was made up of the CEO, CFO and the unit leaders. As most of the management team members were unfamiliar with leading a group, special attention was put on their work practices. An external consultant was brought in to speed up the process.

The board of directors was formed quickly after the deal, with two members coming from Deep Blue's deal team, one external member found via Deep Blue's network and one via the network of the managers. As the Group didn't have a real management team from day one, the role of the board was for some time unusually big and operative by nature.

A simple two-page Rules of Procedure document was created and approved at the third board meeting. It stated that board meetings were to be held once a month, specified when board material are to be delivered to the members, and that a standard form was to be created for the CEO's reports. It also stated what decisions the CEO is to bring to the board, and specified the basic meeting agenda outline and how the meeting minutes are to be dealt with.

The management team is invited to board meetings 2-3 times a year, which ensures that the relationships and transparency are maintained at an adequate level. Although outside of these meetings the deal team is in direct contact mainly with the Group CEO and CFO, the relationships between the parties seem to be the most open out of all the case companies. E.g. the communication between the board and management team is not channeled so heavily through the CEO-Chairman link as in other companies studied here.

At first, the Group strategy rested mainly on the vision and buy-and-build strategy created by Deep Blue. Only after the first three add-on acquisitions were completed, did the board and management team have official strategy meetings. As one of Deep Blue's deal team members put it, "The truly shared vision was created unusually late in this company, almost a year after the transaction. Also, 'process' may be a bit too big of a word to describe the strategy work done then." A small market research was commissioned, Deep Blue did background work and analyses, and a shared outlook on the direction and target level were formed. This was done using frameworks that many of Deep Blue's team members were familiar with.

The reporting practices and key measurements were not completely clear at the time of the transaction. In addition to building i.a. the standard income statements and balance sheet on a group level, finding the right measures that enable inter-unit comparisons was considered important. One deal team member compiled a rudimentary form for what was to be reported to the board, which was then developed further in cooperation with the CEOs of the units. One of the early projects was to bring the financial administration of the companies under a shared system. The Group's finances and investor relationships have been primarily in Deep Blue's hands from day one.

It was clear from the very beginning, that Deep Blue would play an especially big role in screening the market for acquisition targets and leading the deal-making processes. The role was particularly emphasized in the first two add-on acquisitions, as no group-level management team was in place, and the managers of the two units had no prior experience in the acquisitions. Also, as the first add-on unit quickly turned out to be a much more challenging endeavor than expected, Deep Blue's deal team took a substantial role in the project group that finally managed to tackle the problems. Because the add-on companies were to stay essentially as standalone units, the integration efforts were mainly centered on integrating the financial administration – a task of the CFO.

4.1.2. Case Company B

The pre-deal period

When the transaction was made, despite operating under the same brand, Company B was formed from two almost completely distinct businesses. The two firms did almost no cooperation together, and were in many ways very different. One was twice as large as the other one, and highly profitable, whereas the smaller firm was struggling to keep itself above the surface. What the two firms had in common were some customers, ownership, and the fact that both provided professional services to large Finnish and international corporate customers.

After a long negotiation phase, with an in-depth due diligence process including a commercial DD, it was decided that the two companies would be bought with an initial plan of executing a semi-strong integration. How deep the integration would eventually be, was to be determined in an extensive strategy process that would begin quickly after the deal. According to one of Deep Blue's deal team members, "Before the deal we had some kind of a view of where to take the company, but many things were still unresolved, because of the pending integration issues." No 100-day or equivalent plans were made.

The post-deal period

Due the relatively large size of the Company with mostly expert-status personnel, considerable emphasis was put on the announcement occasion. E.g. the presentation slides were planned in cooperation of Deep Blue, both firms' CEOs, the other firm's communications manager and the former main owner. The information event was sent as a live video broadcast to all offices around the world. A separate event had already been held for the management teams of the two companies prior to the general announcements to ensure they were up-to-date and on board. Key customers had also been informed already well beforehand. Press releases were sent about 15 minutes after the beginning of the general announcement event to ensure the appropriate order of information flows.

After the first announcement event, the CEOs of the two firms and the Chairman of the board (Deep Blue's deal team member) commenced a "Road Show", during which they held an information event in altogether eight locations in various countries. As in the general announcement occasion the message focused on the positive aspects of the deal. According to all interviewees the ownership change was well perceived, and personnel reactions were mainly positive.

The new group-level management team was formed from the two previously separate teams. After commissioning a management audit from an external consultant, it was decided that the CEO position would be assigned to the CEO of the larger firm, who would then assemble his own management team. The situation was of course not fully without hardships, as it is always difficult to find suitable positions for the managers left without a management team post. And thus, after some months, the former CEO of the smaller firm left the Company.

The composition of the board was decided at the end of the deal making process, when the deal was struck. The board ended up having six members, with Deep Blue taking over the post of the Chairman. Deep Blue implemented some quite considerable changes to the board's working methods. Previously the boards of the two companies had met four times a year, which was now increased to 10 times, with the board participating more in the decision making than before. In the first meeting, the Chairman told about his philosophy of how he sees the board operating. However, no explicit Rules of Procedure or other documents describing the board's working practices were created.

The strategy process, envisioned already before the deal, was commenced quickly, with key priorities being to figure out to what degree the two companies should be integrated, and what customer segments the Group should focus on. Furthermore, it was also important to bring the management teams of the two firms together to get to know each other, and learn to work together. The process was planned cooperatively by Deep Blue, the CEOs of the two firms, and the consultancy firm chosen to facilitate the process. Altogether 20 key people from both organizations were involved in the strategy work. Deep Blue's deal team members' participation was quite limited: "We mostly listened, not taking too active a role", the Chairman explained. They mainly created a frame for the process by defining the long-term objectives, growth targets and integration goals.

The process started out with an initial idea of a partial integration – only the supporting functions were to be completely merged. However, once the strategy work started, the management teams quickly opted for a complete group-wide integration, executed as soon as possible. Deep Blue fully welcomed this view. According to the Chairman they had been for a strong integration from the beginning, but had been cautious of demanding it too forcefully – "We thought it best if the management team came to see the benefits and superiority of full integration on their own."

According to the company CFO the Deep Blue has brought tougher demands on the finance department. E.g. the cycle time of reporting has shortened, closer attention is paid to forecasts and the accuracy of all data. The most essential additions to what was already being measured and reported were cash flow statements and forecasts, as well as loan covenants, which meant that the company had to also start forecasting its balance sheet. Because the two firms had different data systems, it ended up being a major project to build a combined reporting system. According to Deep Blue, the reporting standards are in some parts still not quite met.

Financing matters and responsibilities were dealt with at the time of the deal, after which all information to the financiers has gone via Deep Blue – the company of course still produces the numbers for the reports.

4.1.3. Case Company C

The pre-deal period

Company C is a Finland-based consumer business with a leading position in its market. The Group, formed at the time of the deal, consists of four previously relatively interrelated firms now truly brought under the same organization.

A specialty about this case was that it was already clear at the time of the deal, that the then acting CEO would leave his post as CEO and join the board during the first year. What is also notable is that this is a much more traditional LBO case than the other cases in this study. The post-deal plans didn't include great changes; the projected value increases were to come mainly from steady cash flow, moderate growth of both revenues and the valuation multiple, and most of all from the change in the financial structure.

No detailed 100-day plans were put on paper – "We basically bought the management team's ideas on where to take the firm, and because no great changes in direction were foreseeable, we didn't see a great need for a 100-day program", one deal team member explained.

The post-deal period

According to the Chairman of the board, the post-deal communication strategy was planned with great detail. The company was used to working with a communications agency, so the agency was also closely involved in the planning and practical execution.

The announcement event was held at the Company's head offices and sent as a live video stream to all other locations. The key message was "business as usual" – no great changes were going to take place because of the ownership change. To tackle the possibly dubious picture of private equity investors in the minds of the personnel, the message was crafted to be as positive as possible. Deep Blue would be there to support the organization and the growth plans with its capital and know-how. Deep Blue was referred to mainly as the "main owner", not a private equity investor. No Road Show was done here, but the deal team did attend major company and personnel events soon after the deal.

The composition of the board was decided on at the end of the deal making process. Deep Blue once again took over the post of the Chairman. In addition to their two board members, other members included the previous main owner, and later the former CEO. According to the Chairman Deep Blue didn't want to start making radical changes to how the board worked, its relationship to the management or to the CEO's reporting practices right from the start. It was thought that these changes would come much more naturally once the new CEO took over.

The board and the management team did a mostly recreational 3-day trip together about four months after the transaction. Company strategy was also lightly on the agenda, but was discussed mainly in an unofficial manner. The board also later did a trip of their own. These happenings were thought of as team building activities, and were assessed to have been worthwhile in building crucial relationships.

As the plan was to proceed in a "business as usual" mode, no real strategy work was done during the first months. "At the time of the deal we had our hypotheses concerning e.g. growth paths, and in the beginning we were mainly testing the validity of these assumptions. We had no need for a strategy process", the Chairman summed up.

Despite the overall starting level being quite high in the company, the development of reporting practices is still work in progress. One member of the deal team has worked in particularly close contact with the company CFO to refine the measurements and board-level reports. According to him, the change of CEO also made it easier to call for changes to the board-level reporting practices – "With an experienced CEO like the company's earlier CEO, you can't go announcing that this reporting format is no good, we need to make serious changes to it. Especially not when he's stepping down from the post in the coming months."

According to the new CEO, Deep Blue has put more emphasis on financial numbers, forecasting and scenario building, which has helped the company look ahead in a more structured way. The previous CEO also contemplated that earlier they didn't need to report to anyone, as everyone sitting in the board had such a deep understanding of the business. "But now that the focus has shifted into building the company towards a successful exit, the numbers have become more important. When the next buyer conducts a due diligence and goes through all the reports and numbers, it should form a coherent story of how the company has been managed, and where the numbers stem from – a story where a board meeting ends one chapter of the book."

4.1.4. Case Company D

The pre-deal period

Company D is a Finnish B2B service company with a leading position in its market. The Company was bought through an auction process, which meant that the case had a somewhat different starting point for Deep Blue than the other cases covered in this sample. An auction process, like explained in the theoretical part of this thesis, limits the exchange that the buyer can have with the seller and the management team of the company being sold. As one Deep Blue's deal team member in this case stated, "An auction is usually not the most ideal basis, because you get to meet the management team with exclusivity only at the very end of the process. This of course raises the risk-level for us. However, what is good about an auction is that the advisors have prepared ample material on the company, its environment, and future prospects, and that the deal-making process doesn't drag on forever, but has a distinct deadline."

What also increased the risk associated in the venture was that there was great uncertainty related to who was going to occupy, what were from Deep Blue's perspective, the two most important management positions. The CEO of the Company had been hired only on a fixed-term contract, and the Company's real CFO was on a leave of absence, and wasn't to return until 3 months after the deal. Deep Blue was able to persuade the acting CEO to continue his assignment, but the CFO remained a question mark – a risk that was deemed acceptable as the business was on a steady basis.

Because the auction process put restrictions on the amount of interaction between Deep Blue and the management team, it wasn't possible to create a truly shared vision and post-deal plan cooperatively. The management team presented the business plans they had prepared, and Deep Blue evaluated their plausibility and whether the plans had the required growth elements. No 100-day plan was created.

The post-deal period

According to the Chairman they put great effort into the launch, communications, and making the management team committed to the company and the plans. "We gave a face to the owners, and showed that we are very committed to the company ourselves. We had an information event at the head office, and it was broadcasted live to other locations. The CEO gave a short summary of the ownership change, and explained that he would continue as CEO and co-owner of the Company. After that, as the Chairman, I introduced Deep Blue, told about our expectations and objectives on a vision-level, and tried to create a positive atmosphere by emphasizing what a great organization the Company is, and how Deep Blue will help it become even greater. Then the CEO explained the future plans in more detail. And finally people had a chance to ask questions." The message was that no immediate radical changes were to be expected, and that the organization could go on working just like before. A week after the first announcement event, the CEO and the Chairman initiated a Road Show to hold similar information events in all the other offices around Finland.

The board was kept compact with only three members, two from Deep Blue's deal team and one outside member found through Deep Blue's network. In it's first meeting, the board reviewed its Year Clock, i.e. what themes were to be dealt with in more detail and when. It went through its Rules of Procedure, amended and approved the Company's existing Corporate Governance Manual, clarified the reporting practices, and discussed the role of the board and its relationship with the management team. Already before the first meeting the deal team had put effort into making sure the board material was on an acceptable level.

According to the CEO the board has maintained its focus on the "what", and left the "how" up to the management team – "The roles are very clear." The current CFO contemplated that before Deep Blue's era, the previous board had been very distant, maintaining contact basically only with the CEO and CFO. "When I came back the whole management team had been planning the company's strategy together with the board. Also, the custom now is that in every board meeting there's one top manager reporting on his/her area. […] There's a clear difference – now the managers know all of the board members by name." The board clearly strives to communicate its interest in the company – like the Chairman said, "To do this we e.g. try to have our meetings in the Company's premises rather than at Deep Blue's office."

After the deal Deep Blue quickly commissioned a management audit, which clearly indicated that the management team was not necessarily working as a team in an optimal fashion. It was decided that the consultant also keep working with the team to improve their teamwork. Additionally, one manager was replaced soon after the deal.

As said, the management team had already prepared quite well thought out business plans at the time of the deal, so there was no need for very extensive strategy workouts. Deep Blue did, however, kick off a small-scale strategy process to ensure it was crystal-clear to all parties. According to the Chairman, Deep Blue didn't have a big role in either planning or executing the process: "We let the management team do it in their own way with the tools they were accustomed to. The Company already had a lot of strategy material, even a bit too much. We tried to bring a better focus into it by giving some guidelines and instructions."

The acting CFO at the time contemplated that it is extremely important to have the board engage the management team in strategy work – "How else is it possible to make the managers feel like they and the board are rowing in the same direction, if they don't even feel like they are being listened to?" However, one deal team member reminded, "It is difficult for a private equity firm to contribute much to the strategy work when it is initiated quickly after the deal, because we don't necessarily know the business that well then. It's good to clarify the strategy to the new board and owners, but often it is better to give it some time before launching into an extensive strategy process."

One of Deep Blue's deal team members had a planning meeting with the CFO quickly after the transaction to communicate Deep Blue's requirements concerning reporting practices. "We carefully went through the numbers with the CFO, and talked about the board-level reporting requirements, so that we'd get satisfactory reports right from the start. I've never had a case company where there wasn't any work to be done in that area", the deal team member contemplated, despite acknowledging that the company's reporting practices were on a high level already at the time of the transaction.

4.1.5. Case Company E

The pre-deal period

Company E is a Finland-based company in the B2B market, with subsidiaries in various countries. The Group consists of three separate businesses operating in the same market.

The deal-making process was initiated by the owner-managers of the Company with the primary intention of finding a private equity firm to support them in realizing their growth objectives. The vision and business plans at the time of the deal were mainly the work of the management team. What made it especially difficult for Deep Blue to truly challenge the management team's views, was that the commissioned commercial due diligence did not manage to form a complete picture of the business and the market. As a result of the weak CDD and a partially lacking financial due diligence, the deal team had to rely mainly on the management's opinions and analyses, which wasn't an optimal starting point from Deep Blue's perspective.

At the time of the transaction, the management team owned the Company. From a governance perspective this was a somewhat interesting situation as the shareholder's meeting, board of directors and management team consisted essentially of the same people. This meant that the managers were used to making even shareholder's meeting-level decisions quite flexibly. Now that Deep Blue was to become the main owner, this situation was of course to change. According to the interviewees, there was some discussion about the necessary operating policy changes already during the deal-making process, but these remained mainly on a general level. No detailed account on e.g. Deep Blue's corporate governance policies was given to the managers. Neither was a 100-day plan created.

The post-deal period

On Day 1, the Chairman of the board and the CEO held information events in the Company's two main locations in Finland. The managers who were not included in the deal-making process were informed earlier about the deal. Here too the CEO and Chairman quickly commenced a Road Show, a series of information events in the Company's major locations abroad. The key message was that the Company would accelerate its growth track under Deep Blue's ownership, and that the key managers would maintain their positions and a share of the Company.

It was decided at the end of the negotiation process that all three partners of Deep Blue's deal team would become board members. Other members included the CEO, and one outside member (the chairman of the former board). Later also the COO of the company was granted a position in the board. The CFO also being present in the board meetings as the secretary lead to a situation where basically the board and the management team were again very much intertwined.

In its first meetings the board discussed its ways of working on a general level, but didn't create and agree on any documents related to e.g. rules of procedure or corporate governance issues. Some important themes to be discussed more extensively were scheduled for upcoming meetings, but no formal Year Clock was or has been created.

As said, with the somewhat failed due diligence process as the foundation, the starting point for the holding period wasn't fully optimal. Because the Company had a rather extensive integration process ahead of it (Deep Blue called for more synergies especially between the two biggest firms), a formal strategy process was considered the best way to form a strategic plan, decide on the integration issues, build momentum for change and generally get things rolling. The process started only a few weeks after the closing of the deal, with a relatively large number of people from all three organizations taking part in the work. A consultant was brought to facilitate the process.

A secondary objective of the strategy process was to get the managers of the different organizations to get to know each other and learn to work together. What comes to Deep Blue's role in the strategy process, other than taking part in planning of the process and being present in the kick-off event, the deal team's participation in the strategy work was quite minor.

According to one deal team member it soon became evident that the consultant facilitating the process didn't' quite know what he was doing. "The fellow had earlier done sales consulting gigs for the Company, and the CEO recommended him quite emphatically. But he clearly didn't know how to structure a strategy process, despite our efforts to instruct him. The process was a big failure, and lead to a lot of confusion. That was almost two months down the drain. At the end the board decided to take what the process had created and finalize the strategy with only the core people present. But the thing is that our deal team should have taken a more decisive role in the post-deal developments, and in hiring the consultant."

When inquired about the development of reporting practices, the CFO recounts that during the deal-making period the message to her had been that the Company's reporting practices were quite sufficient from Deep Blue's perspective. "But after the deal our reporting suddenly needed a lot of work. Not a single board meeting has gone by without amendments to the requirements – we still don't have the final format figured out." What of course made the development of reporting practices a bigger project was the required integration of especially the two biggest firms that still had separate systems in place.

4.2. Results of the Case Analyses

The way the post-deal honeymoon period is planned and managed can vary a lot depending on the target company and the general situation. However, the empirical case studies suggest that the same fundamental elements are present across the different buyouts made by Deep Blue (inter-case comparisons of the cases can be found in Appendices 1 and 2). This chapter develops a view of the distinctive and focal themes that the data brings forth, and discusses the challenges and crucial points related to them in light of the case studies.

4.2.1. Focal themes in the planning and management of the post-deal honeymoon period

Table 4 summarizes the themes growing out of the case studies. These themes are elaborated on below.

Table 4: Focal themes in the planning and management of the post-deal honeymoon period

Pre-deal themes	Acquiring sufficient knowledge about the company and its business
	Building trust and relationships with the management team
	Building a shared vision and business plan with the management team
	Discussing ways of working, roles, change requirements and practicalities
	Planning the internal and external communications
	Selecting the board members
Post-deal themes	Announcing the deal and communicating changes
	Agreeing on ways of working, roles and responsibilities
	Building relationships with the key managers
	Developing the management team and its ways of working
	Beginning board work
	Developing the reporting practices
	Crystallizing and refining the company's strategy (strategy process)
	Making organizational changes
	Building momentum for change
	Supporting the management team with know-how and resources
	Clarifying co-ownership issues

Pre-deal themes

Acquiring sufficient knowledge about the company and its business

It goes without saying that the foundation for good investment decisions is built on in-depth knowledge of the company, the management, its business, and the environment it operates in. To be able to accurate valuate the company, estimate the growth potential and risks, create an optimal financial structure, form a clear vision and business plan, and communicate change requirements to the managers, Deep Blue uses a multitude of sources and methods to acquire the necessary information. These include i.a. financial statements, discussions with the company managers and previous owners, talks with industry experts, and due diligences.

Deep Blue taking an active role in the company during the holding period, the broader and deeper its understanding of the company, the better it can contribute to the firm's business. E.g. the Chairman of case Company A stated that despite the small size of the company, commissioning a commercial due diligence would have helped them to get a faster start: "A CDD would have created a better understanding on what kinds of add-on acquisition targets we should've concentrated our efforts on, and what the customers' needs were."

What all of the interviewed deal team members highlighted especially was the importance of forming an understanding of the company's leadership culture and the capabilities of individual managers. E.g. one deal team member in case Company E explained, "We probably didn't realize how big a change it would be for the management team who was used to making board-level decisions when meeting in the hallway. We should pay more attention to the leadership culture in the firm and the change needed – the management audit commissioned partly before and partly after the deal didn't analyze the leadership processes, but focused solely on analyzing the people." As posited by the Company B CEO, even a separate "culture due diligence" may be beneficial, especially in cases where two companies are merged at time of the deal.

Building trust and relationships with the management team

All the interviewed Deep Blue's partners stressed that every single deal boils down to the people. "Because we operate mainly through the board, and thus rely fully on the CEO and management team to actually run the business, it's important that all parties trust each other", one partner explained.

As the foundation for trust between Deep Blue and the managers is built already during the deal-making process, Deep Blue tries to meet with the whole management team before the transaction, be it simply a common dinner event like in Company C. The inclusion of the whole management team is usually done only at the end of the negotiation process. Like Company D CEO explains, "The more people are dragged into the rollercoaster that the deal making process is, the more the daily work suffers."

Building a shared vision and business plan with the management team

According to all interviewees the clearer the vision of where the company should be at the time of Deep Blue's exit, the better. "When all parties are committed to the same shared goals and business plans already before the deal, it creates trust and ensures a smooth launch into the holding and development period", the Chairman of Company C explains. He also emphasizes that Deep Blue should always make it crystal-clear to the managers that they are only a temporary owner, with the intention of selling the firm to the highest bidder when the time comes.

The way this vision is created varies depending on the situation, but Deep Blue always strives to form its own perspective to challenge the management team's viewpoint. Three to five key development themes are elaborated on in the Investment Memorandum created before signing the deal.

Discussing ways of working, roles, change requirements and practicalities

A PE firm becoming the majority owner may bring substantial changes to the way a company is managed and governed. Many manager interviewees hoped that Deep Blue had better explained their way of doing things, their role and especially the change requirements already before the deal. E.g. the CEO of Company B recounted that there was talk of Deep Blue telling more explicitly about their plans, how things were to be organized and what was to change, but this never happened. “Many things remained assumptions. It would be good to better inform the management team of the required changes. E.g. the fact that after the deal the Company became extremely cash-poor in relation to what we’d been used to was a new situation for many people. It would be good to better explain the implications of this – we never really discussed what exactly changed here.”

When asked from the managers, whether a 100-day plan might have brought more clarity into the situation at the time of the deal, the virtually unanimous answer was “yes”. Only the managers of Companies C and D were of the opinion that such a plan would most likely not have made much difference. However, what is noteworthy, is that these were the companies where the least changes were needed. Furthermore, even in these firms, the interviewees didn’t state that a 100-day plan detailing the concrete steps and schedules, and what things were to be agreed upon and when, would have been harmful.

The manager interviewees at Company E, in calling for more clarity when it comes to communicating ways of working and change requirements, suggested that Deep Blue develop a “manual” describing their way of doing things. According to the Company CFO, “It’s always better to know what’s going to happen, be the things pleasant or not.” The CFO of Company B also commented: “It’s not even clear to everyone what a PE investor is. A manual explaining what it means when Deep Blue becomes a majority owner would be extremely good. I would also put a lot of effort into explaining the practicalities, roles and responsibilities, how Deep Blue wants the board to work etc.”

What the challenges faced at Company E brings forth, is the importance of the deal team’s teamwork. As one deal team member put it, “This case is a good example of the things we should improve in our own processes. The deal team hasn’t worked as a team, and that has lead into many problems that could have been avoided.” Hence, also deal team’s internal work practices should be discussed, especially if there are differences in opinions on how the post-deal honeymoon period should be planned and managed.

Planning the internal and outward communications

It seems to be very context-dependent how the post-deal communication plan is created. Who takes part in the planning varies a lot; in companies D and E the plan was crafted mainly by the Chairman and CEO, while in companies B and C the group involved was a lot wider. In none of the cases was the plan put explicitly on paper.

Many times the key people, customers and other stakeholders are informed of the ownership change already prior to closing the deal.

Selecting the board members

In most cases studied here, the board composition had already been agreed upon at time of the deal. Only in Company A was the process of finding a second outside member not finished.

Post-deal themes

Announcing the deal and communicating changes

The post-deal honeymoon period kicks off almost invariably with an announcement event, usually already on the day of closing the deal. Only in Company A was the information event held two weeks after the transaction, with the intention of truly being able show the organization, that no big changes were taking place. This was also the only case, where Deep Blue's deal team did not participate in the announcement event, but only instructed the CEOs and prepared them for the most common questions. In all other companies the Chairman had a substantial role in the event. Like the Chairman of Company D explained, "We wanted to give the new owners a face and show that we're putting ourselves on the line."

Typically the announcement event was held at the company headquarters, from where it was broadcasted live to other locations if the company had multiple offices in Finland or other countries. Naturally there were always case-dependent nuances, but the common pattern in the events went as follows. First the CEO and possibly the previous main owner explained that the deal had been made, what it meant and what the future direction was to be on a broad level. After this the Chairman introduced Deep Blue, and told about their role, objectives and vision for the company. Finally the CEO and possibly other managers shed light more light on the upcoming changes, after which the employees had a possibility to ask questions.

All interviewees emphasized the importance of communicating the positive aspects of the deal. "It's important to make people feel like they've won in the change", the CEO of

Company D said. These positive aspects usually include additional resources and know-how for growing the company, and that Deep Blue is fully domestic owner truly interested in developing the company further. Although the more concrete and open the message is the better, one thing that the CEO of Company B took up, was the question of whether it is necessarily beneficial to proclaim Deep Blue's financial objectives so explicitly to the whole organization. "Of course the investment profit goals are important, but underlining them too forcefully may only enforce peoples perception of PE firms as cold, brutal owners seeking profits by any means necessary, often at the expense of the employees. It's important not to throw more gasoline into that fire."

To show dedication toward the whole organization, the CEO and Chairman often did a Road Show, a tour of similar information events in all major offices, even abroad. Many interviewees also explained that a Road Show is also an extremely good way for the Chairman to get to know the CEO and company. "When you get to know people better, it enables a natural dialogue – it's always better if the talk isn't only centered around EBITDA percentages", the Chairman of Company D relates.

In case organizational changes are taking or going to take place, it's important to inform the employees about these as soon as possible. "Not only do people want to know whether they themselves have a job, but of particular interest is also to whom they will report to", the previous CEO of Company B explains. It's also critical to identify the key "star players" that the company's success relies most on, and make sure that value is not destroyed by them leaving the firm if changes affect their position in a negative way. This was partly the case in Company B, where many of the smaller firm's core people left as a result of the transformation brought by the integration. The former CEO of the smaller firm believed that with better post-deal communication and dialogue between all parties, this could have been avoided.

In addition to company internal communications, external stakeholders were also informed of the deals. E.g. Company B informed its particularly important customers and partners of the ownership change already prior to the deal, whereas press releases and other stakeholder announcements were released 15 minutes after the starting of the internal announcement event.

All interviewees acknowledged the importance of post-deal communications. What is noteworthy, however, is that Deep Blue's role in communications doesn't seem to extend much beyond the Day 1 announcements. After the first announcement events communicating changes is the responsibility of the management team, and oftentimes the next time that the board or Deep Blue make an appearance to the whole organization, are either informal company events or the unveiling of a new strategic plan in case the company goes through a strategy process.

Agreeing on ways of working, roles and responsibilities

In all five cases studied here, the ways working, roles, responsibilities, governance practices and change requirements were discussed only on an abstract, general level prior to the deal. With the beginning of the post-deal period came also the need to agree on these matters on a more concrete level. In most cases the interviewed management team members hoped for more structure and rigor in how these practicalities were agreed upon. According to many CFOs and managers, especially the roles related to the company finances would have needed more clarifying right from the start.

Building relationships with the key managers

Acknowledging the importance of sufficiently close personal relationships and trust between the managers, board members and Deep Blue, Company C organized a 3-day board-management team retreat. “It was a good thing we did that – you definitely build closer relationships more quickly that way”, the Chairman recounted. “It was also a good setting to talk strategy and objectives in a more relaxed atmosphere.” In all other cases no outings were organized, but the message from the managers side was that relationships were still formed well. As the Company A Chairman explains, “It’s mostly a matter of spending enough time with the people and making sure they feel it’s ok to pick up the phone and call us.”

Developing the management team and its ways of working

The operative management being one of the biggest success-factors – at least according to all interviewed Deep Blue partners – the deal team usually commissioned a management audit from an outside expert. The audit shed light on the individual managers’ personalities, capabilities and traits, and brought forth problems in how the management team worked together. Often the audit was followed by the same consultant working with the management team to overcome the discovered challenges. Principally Deep Blue strives to keep the management team intact, but as in Company D, changes may need to be made if the team doesn't’ function well together or if individual managers don’t perform at the wanted level.

Beginning board work

Most of the interviewed managers gave very positive feedback to Deep Blue on the increased structure and effectiveness of board work in their companies. The case companies also now all have more board meetings than what they used to before Deep Blue. In most companies the number of board meetings per year used to be four, whereas during Deep Blue's holding period it increased to ten. E.g. the CEO of Company D described "We have a really strong board, which truly makes decisions, pushes things further, and demands a lot, but also supports the management team in their work."

It seems that only in Company E have there been substantial challenges in getting the board to function properly. The management team recounts that a lot of time was spent on finding the ways of working and how the managers should report to the board. However, they could not recall there being any detailed and comprehensive discussion about these matters before or during the first board meeting. One deal team member affirms this in saying: "We should have played a bigger role in planning the agenda for the first meeting. We came into the situation a bit under-prepared, and didn't discuss the basic practicalities on a sufficient level. [...] We probably didn't realize how big of a change it was for the management team, who was used to not having anyone to answer to. It took a long while before they internalized the change requirements because we didn't communicate and demand them clearly enough." This lack of attention to ways of working coupled with problems related to reporting quality, lead to board meetings straying to partly irrelevant subjects.

In all cases the Chairmen clarified their philosophy on how the board should operate on a broad level. However, there were significant differences in what specific practices were agreed upon. E.g. the board of Company D created i.a. Rules of Procedure, Year Clock and Corporate Governance documents, whereas Company E didn't agree on or discuss these subjects on such an explicit level. The Chairman of Company D explained the benefit of having e.g. a Corporate Governance manual everyone is committed to: "When the board goes through these subjects together in detail and agrees on the shared rules of the game, it's easier to operate efficiently afterwards, when everyone's on the same page." When inquired from the deal team and managers of Company E, the unanimous opinion was that dealing with these matters more comprehensively in the very first board meeting would certainly have been beneficial. "E.g. creating a Year Clock detailing specific themes for future board meetings, would definitely bring more goal-orientation into the how the board works", the CEO of Company E explicated.

An area that also contained some differences between the case companies was the relationship of the board to the management team. E.g. in companies A and E the communication was clearly channeled more intensely through the Chairman-CEO link than in Company A, where the managers were in a more open contact with anyone in Deep Blue's deal team.

Developing the reporting practices

In creating more pressure on the financial and other reporting practices, Deep Blue doesn't differ from the norm of PE firms. In all case companies studied here Deep Blue started driving the development of reporting systems and practices more forcefully, paying closer attention to reporting accuracy while shifting the focus from the past to forecasting the future and from profit to cash flow.

The reasons for emphasizing the importance of reliable reporting are manifold. First of all, with the more aggressive finance structure comes stricter demands on reporting to the financiers. But the main reason, however, is that reliable reporting is the foundation of effective board work. As the case Company E exemplifies, when the board reporting isn't on a required level, discussions diverge into irrelevant subjects, and the meetings become strenuous, as reported by one deal team member. "To be able to make decisions, the board needs to have accurate information on the firm's situation. If this isn't the case, decision-making becomes slow, and moves to adapt to changes are always done too late", he continued. The previous CEO of Company C also explained that the reason why PE firms put so much effort into developing the reporting practices is that it oftentimes directly influences the value of the company. "At time of exit the reports, measures and numbers should create a uniform story for the buyer, with one board meeting ending one chapter of the book. When the reporting practices are on a high level, the buyer can easily see where the numbers come from, and how the company has been managed during the holding period. Also, if you can show that the forecasts have been accurate in the past, it's easier to argue for the validity of projections into the future made at time of the exit."

Despite this pressure and emphasis on reporting quality, Deep Blue clearly has challenges in getting its portfolio companies to produce reports at the required level: not a single case company in this study was said to have sufficiently high-quality reporting practices (average holding period of the case companies at time of the interviews was a bit less than 2 years). The Chairman of Company B contrasts the situation with mergers and acquisitions: "In M&A the buying firm usually brings its reporting and measurement systems with force into the new unit, and thus it only takes a few months before the acquired firm is already producing the needed reports. However, we do not have a standard reporting system that we'd roll out into all of our buyout targets, nor would that make sense. Furthermore, our portfolio companies being very different in many respects, the required measures and reports vary a lot." However, he does admit that many of the basic measurements and changes in reporting are the same across all Deep Blue's portfolio companies. "We should probably look into developing a more standardized approach to what we demand from the firms. This would make it easier for us to communicate our requirements, and speed up the development process."

Again, some differences were identifiable across the cases related to how the process of developing the reporting practices was launched after the deal. E.g. in Companies C and D, one deal team member quickly arranged a meeting with the CFO, during which they jointly "went through the numbers and systems" and discussed the development requirements. This is a much more proactive approach than employed by the deal team in e.g. Company E, where no such meetings were held, but the development needs were communicated during board meetings. As the CFO of Company E relates, "It would have gone so much smoother had Deep Blue, possibly already before the deal, let us know that 'these are the reports we want, in this format', concretized through examples. Then after the deal before the first board meeting, one of Deep Blue's deal team members could have sat down and gone through the reporting requirements with me. Amending the requirements in each board meeting only creates frustration in all parties."

Crystallizing and refining the company's strategy (strategy process)

Virtually without exception some kind of strategy process was gone through during first months of the holding period – only in Company A were the first strategy meetings held as late as almost a year after the deal. Depending on the situation, the process may be a comprehensive, formal exercise or alternatively simply a few strategy meetings among the board and management team. In case no need is seen for changing the vision and strategy of the company, this work focuses mainly on setting financial and growth objectives for the holding period.

Like the CEO of Company D depicted, "A PE investor rarely turns an acquired company's strategy around, but refines it and broadens the management team's perspective, in case their plans have in aspects been left weak." Although Deep Blue always acquires the majority of its portfolio companies and endeavors to form a clear understanding and position the companies' strategic plans, it doesn't act like a dictator in imposing its judgments on the managers. Rather, the strategy work is usually organized so that the board either instructs the managers on how the process should be executed and what kinds of outcomes are needed, or then the board and managers jointly work to contrive the plans, which the board then approves.

In both companies B and E, where the projected changes were the biggest, the strategy creation process was executed in a particularly formal and extensive manner, with a large number of people participating in the workshops and work. In both cases a consultant was brought in to facilitate and structure the work. The difference, however, was that the consultants at Company B had extensive experience on facilitating such processes, whereas the consultant at Company E was more familiar with doing sales consulting. The interviewed deal team members and managers were quite frank about the problems this wrong choice for a consultant lead to in Company E. Furthermore, as the management team was already swamped in work after the intense negotiation process, the common opinion was that they should have maybe hired a consultant who would also have actively contributed to the background work during the process. This was the case in Company B, where the process was deemed a success.

The post-deal strategy processes conducted in companies A, C and D were much more lightweight. E.g. in Company C the strategy work was very informal, taking place during the three-day outing of the board and management team. “During the first months it was mainly business as usual as we tested the existing hypotheses and continued the development and expansion projects already in place at the time of the deal. We didn’t have any clear need for an extensive strategy workout”, the Chairman recounted. Furthermore, as one deal team member in Company C explained, “At first it’s good to quickly crystallize the company’s strategy to the new board and owners. However, carrying out an extensive strategy process before you know the company can be a bit risky – especially if the new board should be able to contribute to the work.”

According to many partners at Deep Blue, strategy work needs to adapt to what the prerequisites are at each company. Especially in smaller companies, where the managers are usually on average less experienced in strategic thinking, the use of abstract concepts and frameworks may be counter-productive. “In some cases you need to start from the very basics, discussing what the concept strategy entails and so forth”, the Chairman of Company A explained. Generally the better equipped the managers were for doing strategy work in the case companies, the smaller was Deep Blue’s role in the process. Only in Company E was there some discrepancy in this respect. The interviewed managers were all surprised how little Deep Blue’s deal team actually contributed to the strategy making: “Strategy work in that format was unfamiliar to us, so it would've been good if Deep Blue had participated more. Furthermore, our business was so familiar to us, that we'd needed an outside, out-of-the-box view. Participating more in the process would have also taught Deep Blue a lot about the business", the CFO contemplated.

Oftentimes when carrying out a strategy process, the goal is not only to create a strategic plan, but also to get e.g. people from newly merged companies to get to know each other and build cross-boarder relationships. This was the case both in Companies B and E, where the process involved dozens of managers, previously unfamiliar to each other, working together to find synergies and build a shared strategic plan.

Many interviewees reminded that crafting and agreeing on a strategic plan is only the start, and that most of the real challenges start when companies start to implement them. E.g. according to the previous CEO of Company B's smaller firm, "The biggest reason for strategies not working is that organizations don't succeed in implementing them. Here we partly had this situation – the strategy process resulted in a really sound plan, but putting it into action was slower and harder than expected." Many interviewees also emphasized that strategy making doesn't stop when an "official" process comes to an end – "It's an ongoing process where you constantly test the hypotheses the strategy rests upon", the Chairman of Company B described.

Making organizational changes

In all case companies some organizational changes were made after the deal. In companies A, B, C and E these changes were brought on already because of the deeper integration between previously more autonomous companies, whereas in Company D the fundamental reason for restructuring was gaining efficiency through a simpler organizational structure. In Company B the organizational transformation was also a result of the new strategic focus areas decided on in the strategy process.

The key architect behind the organizational changes was in all companies the CEO. However, especially the Chairman was also highly involved in crafting these plans in cooperation with the CEO, who then finally presented his proposal for the board to decide on.

In none of the case companies were any large-scale layoffs made. The need for layoffs stemmed mainly from the unification of the supporting functions in the administrative departments. None of the interviewees found that there were any real problems or issues in the way these layoffs were handled.

Building momentum for change

All the interviewed Deep Blue's partners confirmed the importance of the first few post-deal months when it comes to initiating and building momentum for change in the organization. E.g. the Chairman of Company D explained: "One of the focal things during the first few months is that you need to get the changes rolling and build momentum. You have a window of opportunity, and that's why there's so much talk of 100-day programs. Everyone in the organization is anxious to see what's going to happen. If you don't initiate and communicate the changes then, you lose the opportunity and the momentum. 'We got excited for nothing', the organization will think."

In three of the five case companies, Companies A, C and D, the first months, however, didn't involve big changes. On the contrary, the main message in all of these cases was that the work would continue mainly as it was. Then again in Companies B and E the large-scale strategy process, begun quickly after the deal, was the main avenue of initiating and communicating changes to the organization. In none of the case companies were so called "quick wins", small-scale development actions with the intention to show the organization that the winds of change are blowing, orchestrated intentionally during the first months.

Supporting the management team with know-how and resources

Being an active owner, Deep Blue's deal teams clearly strive to add value by bringing their know-how to the table, oftentimes going even deeper into the business than just being active board members. The themes in which they contribute and support the management team the most of course depend on the company, its situation and the management team's capabilities. Generally speaking, however, the key contribution areas in the five case companies studied here were finances, reporting practices, strategy work, add-on acquisitions, organizational structures, and the use of outside resources (such as a consultants). Depending on the background of the deal team members and their knowledge of the company and its industry, operative issues were also often on the agenda.

One area meriting a special treatment here is add-on acquisitions. Deep Blue often takes a big role in all the way from screening for possible targets, launching negotiations, and commissioning due diligences to negotiating the financing packages with banks. In some cases, like in the first add-on acquisitions done in Company A, Deep Blue acted so independently during the pre-deal phase that the managers of Company A couldn't keep up with everything that was agreed upon with the selling side. This lead to some difficulties, and in later add-on acquisitions the managers were much more involved in the negotiations. This way they were also able to better contribute to assessing whether the target was a suitable addition to the Group. The interviewed managers, especially the CFO, called for clearer post-deal plans when doing add-on acquisitions: "The integration process should be planned more rigorously beforehand – abstract-level discussions during the negotiations never steer post-deal actions firmly enough."

In Company E, the managers wished that Deep Blue had brought more know-how into how the integration process between the two biggest companies was to be organized. "One of the key questions is how Deep Blue could've participated more in the integration efforts, because one of their key-competences lies in acquisitions. E.g. providing some kind of best practices and maybe forming a board's working group to steer the process would have ensured a more efficient integration", the CEO contemplated, while naturally also acknowledging that the greatest responsibility for the slow progress lay with him. However, this seems to indicate, especially as such a big part of Deep Blue's buyouts are characterized by mergers of two or more companies, that it might be beneficial for Deep Blue to provide the managers with more support on planning and leading the integration efforts.

Clarifying co-ownership issues

In all of the case companies most, if not all of the top managers committed themselves to the company also financially. In the words of the Chairman of Company D, the managers were by no means forced to invest, but were "offered the opportunity to become co-owners in the company". He also stressed that although the theory emphasizes the role of management co-ownership, there may also be negative effects: "When times are good and business goes well, co-ownership works well. But when things turn south, it may end up diverting people's attention to wrong issues, stirring up panic of loss of invested money. You must always highlight that everyone is to make investments only according to their own limits. Also, it should never be an issue that creates inequality in case some people are not willing or able to invest."

Co-ownership being such a delicate issue, Deep Blue organized information events to the managers that the chance to invest was given to. E.g. in Company D, the Chairman personally held a presentation on the subject, explaining the basics of the deal, how the value of the company is determined and how it would develop under different hypotheses. The Company's CFO at the time, despite praising Deep Blue for organizing these excellent information events, hoped for still more concrete exemplifications through scenarios. "For CFOs these things are quite easy to understand, but for many people who haven't been so much involved in the financing side, some concepts, such as the valuation multiple, may be quite hard to comprehend if not explained through more concrete examples."

4.3. Synthesis of the Case Studies

Many of the problems witnessed in the case companies can actually be seen as symptoms of the fundamental challenges related to the situation of a new group of people becoming the owners and taking an active role in an organization. The buyout situation entails great information asymmetries both ways. The management team has greater knowledge of the company, its culture, and the way things are being done in the organization. Deep Blue on the other hand has extensive experience of buyouts in general and knows what it requires from the managers (e.g. when it comes to reporting practices). Thus, only through communication can the two parties and all their members synchronize their assumptions and come to work efficiently together. However, as the cases studied here indicate, bringing everyone on the same page may at times prove to be difficult.

The communication challenge is made even bigger by the fact that Deep Blue is yet to develop a clear process for how it "goes into" a target company. The methods used for planning and managing the post-deal honeymoon process vary a lot across cases. This leads to many problems, such as:

- Deep Blue's deal team members may have differing opinions and assumptions on how things should be done. These differences may not surface before they have already led into clear problems.
- All relevant things may not be explicitly discussed and agreed upon in case there is no clearly defined framework providing the steps that need to be taken in all target companies.
- Not having a standardized way of doing things makes it difficult to communicate what's going to happen, the change requirements and ways of working that Deep Blue enforces on the management team. Like the CFO of Company E said, "Even if the demands are undesirable from our perspective, it's better to be clear about what they are than leave them undiscussed and vague."
- The honeymoon phase, the period of learning to work together, may drag on for an overly long time. Deep Blue's holding period of companies being quite short, it's important to quickly and efficiently clarify the new rules of the game to get "back to work".

5. Discussion

This chapter makes recommendations to the case PE firm, Deep Blue, related to the planning and management of the post-deal honeymoon with respect to the themes depicted in the results chapter and in general. It also creates a framework, relates the findings to previous academic research, and discusses their generalizability.

5.1. Recommendations to Deep Blue

5.1.1. Recommendations with respect to the focal themes in the planning and management of the post-deal honeymoon period

Pre-deal themes

Acquiring sufficient knowledge about the company and its business

For the most part Deep Blue seems to be very professional in how it acquires knowledge about its target companies during the pre-deal phase. However, what it probably should focus more on is forming a better understanding of the company's leadership culture. Only this way can Deep Blue accurately communicate the change requirements demanded when becoming the new majority owner. Now e.g. the commissioned management audits focus more on the individual managers than on the leadership processes and the culture of the firm. The importance of analyzing the cultural aspects seems to be further heightened when the deal entails an integration of two or more companies.

Building a shared vision and business plan with the management team

Depending on the situation, it may not always be possible to devise a clear vision and business plan before the deal. E.g. in case Company B what was clear was that the two firms would be integrated at least to some extent, certain themes such as sales process would need special attention, and that the holding period would be kicked off with an extensive strategy process forming a detailed strategic plan for the future. Also, in some cases it is not possible to discuss these things extensively with the whole management team before the deal close. However, many of Deep Blue's partners did raise the question whether they should strive to form clearer plans already during the negotiation phase.

What was surprising in light of all the buzz around 100-day plans was that in none of the case companies studied here were such plans formed, nor were any kinds of checklists used to make sure all relevant areas were discussed and agreed upon during the early stages of the holding period. Many of the interviewed partners at Deep Blue had a somewhat skeptical stance on the creation of 100-day plans before or after the deal, and seemed to also have differences in their views of what a 100-day plan actually consists of. On the other hand, almost all of the interviewed managers saw that a 100-day plan would have brought more clarity and goal-orientation into the early months after the deal. This disparity most likely stems from the fact that Deep Blue's partners have an extensive knowledge of what the steps are that will be taken during the honeymoon period, but the managers, being involved in a buyout usually for the first time in their careers, are novices in that respect.

When asked the interviewed Deep Blue partner's about 100-day plans, they often replied that three months is way too short of a timeframe to execute any real changes in many cases. However, the plan must not be viewed as something stating what needs to be completed during the timeframe, but can be extended into what aspects should be planned or decided on, and which initiatives should have begun but not necessarily finished during the 100-day period.

A good practice could be to form an initial 100-day plan already during the pre-deal phase either among the deal team or cooperatively with the managers included in the acquisition process. After the deal this initial plan would then be sharpened and completed together with the whole management team to ensure their commitment and the comprehensiveness of the scheme. Done in this way a 100-day plan:

- Sets objectives and timetables for things that need to be planned, decided on or executed during the timeframe.
- Is a way to make Deep Blue's deal team, the board, and the management team discuss the right things, and get them to work together and commit to the jointly crafted plans.
- Is a communication tool that helps in bringing forth and synchronizing assumptions of all parties.
- Ensures that the ways of working are discussed in order to create a solid foundation for cooperation and to prevent surprises. In this ways everyone is able to fully concentrate on the real business themes as soon as possible.
- Ensures that Deep Blue's deal team puts enough time and effort into the company and the most critical areas. Deep Blue's partners often have a multitude of portfolio firms to govern, so a clear plan forces them to focus enough time on the newly acquired firm. This has been found to significantly increase investment success by e.g. Heel & Kehoe (2005).
- Increases goal-orientation and ensures that things get prioritized.

- Creates a sense of urgency necessary for accomplishing change in organizations (e.g. Ashkenas et al., 1989; Kotter, 2008).
- Ensures that the momentum and window of opportunity created by the ownership change is exploited to the fullest. Like the CEO of Company D put it: "Because people expect change, you are presented with an opportunity for doing things very differently."
- Can even explicitly take a stance on how the relationships between Deep Blue, board, management team and other managers are to be formed – should e.g. special team building events be organized?

A 100-day program can be viewed as a project launching Deep Blue's holding period. And like all projects it should have a project leader, and a clear-cut end date when its status is scrutinized in relation to the objectives, the project's success is assessed, and the next steps are planned. A 100-day plan, put explicitly on paper, also forms a platform for learning – if certain kinds of development initiatives are always lagging in progress across case companies, this can lead to valuable insights on what to put special attention on.

A sample 100-day plan template created based on the findings of this study can be found in Appendix X. It is important to note that the tasks described in the template should of course be customized case by case, and need to be more detailed in order to lead to specific actions.

Discussing ways of working, roles, change requirements and practicalities

As described in the Results section, many managers hoped that Deep Blue had better informed them about their way of doing things, their role and especially the change requirements already before the deal. The creation of a 100-day plan was raised as a possible tool form bringing clarity into the situation, but also a "Deep Blue's way of working" manual was suggested by some managers as a way for the deal team to communicate what it is they will demand from the management. The manual could also explain the essentials of private equity buyouts, what it means when a PE firm acquires a company, and how value is created in buyouts. This would create a better understanding of the situation for the managers who are not familiar with the world of private equity. By giving a comprehensive account of the principles and reasons behind why things are done in a certain way, the managers would have a much easier time adapting to the changes Deep Blue demands.

The manual wouldn't necessarily need to go into tiny details on how Deep Blue operates and what changes it will enforce, but could for many parts merely describe and point to the subjects that need to be discussed and agreed upon together with the management team. This way individual partners and deal teams would maintain their freedom of doing things partly in their own way – chaining professionals into a rigid model of working is most likely not the best choice, nor would it probably be possible.

Planning the internal and outward communications

Despite the context-dependent nature of how the post-deal communication plan is created Deep Blue might wish to form some common templates and checklists for how the announcement events and other communications are planned. As the plans are always crafted in cooperation with managers, having documentation of the best practices would again help in doing this more efficiently.

Post-deal themes

Announcing the deal and communicating changes

According to the interviewees the Day 1 announcement events were generally speaking successful. In all but one case company Deep Blue's deal team, lead by the Chairman, took a substantial role in the presentations with the intention of "giving a face" to the new owners. This practice got very good feedback from the interviewed managers.

It was a common convention to inform the key managers of the deal before the general announcement event. Deep Blue could also consider broadening this circle further into middle managers, as has been found effective in the field of M&A by e.g. Haldevang (2009) and Tetenbaum (1999). The authors argue that rather than trusting the official announcements, employees first look to their supervisors for information about the changes taking place, meaning that it is critical that team-leaders have a positive stance toward the acquisition, and are well equipped to provide satisfactory answers to their subordinates' questions.

As described in the Results, Deep Blue's role in post-deal communications usually ends after the Day 1 and possible Road Show announcement events. M&A literature then again (e.g. Ashkenas et al., 1998), emphasizes heavily that information events are only the first steps. An effective communication process needs more than just information bulletins and announcement events: it requires the creation of forums for truly two-way dialogue between the two organizations. According to Haldevang (2009), most communication fails because it is conceived from the position of "ease of delivery" rather than effectiveness and the needs of the recipients. Assessing whether Deep Blue should play a bigger role in communications also after the Day 1 announcements is recommended. At least the deal team or the board should make sure that the management team understands the importance of effective communications.

Ashkenas et al. (1998) also emphasize that from an employee's perspective the first thing they want to hear is an answer to the question "Do I have a job?". In addition to fears of job-loss, there are also many other aspects that produce anxiety, stress and even anger; employees' mental scripts tell them that when a company is acquired, the acquiring company comes and puts its own people in charge, alters policies and procedures, restructures the organization, and generally takes over. "Who are these new owners? What are their intentions? Can we trust what they say? Do we still have jobs, and are they the same as before? Why did our previous owners sell? Did we do a bad job, or did they betray us?" (Ashkenas et al., 1998)

In aspects related to communications the buyout situation can be seen as very similar to M&As, with most likely the same questions and anxieties arising in employees minds. This coupled with the fact that private equity investors are generally often seen in a negative light, the comment that the Company B CEO made on not highlighting Deep Blue's financial objectives seems valid. Only if these financial goals are framed in such a light that it creates a positive outlook for the employees (i.a. more interesting tasks, job security and better pay-for-performance schemes through growth) is there a clear reason for announcing them with such strength.

When the communications is done properly and respectfully, it creates a strong basis for launching change initiatives. Again in the field of M&A, where post-deal communication processes have been studied a lot more extensively than in the PE world, Teerikangas (2006) finds that employees do not necessarily welcome a merger only with feelings of uncertainty, anxiety and stress, but can exhibit considerable motivation towards the changes if the pre-deal and post-deal phases are managed well and in a fair manner. She also states that it is crucial to manage both employee expectations and attitudes; it is far better if the acquiring firm is seen as a "welcoming host" than a "conqueror". Facing uncertainty, the staff will use whatever information available to them to form their "informed" opinions, and thus, attention should not only be paid to large-scale matters but also to minor changes and acts, and what they communicate. At times, success can be dependent on how representatives of the buyer behave – do they exhibit respectful behavior by, e.g., shaking hands with shop floor staff? (Teerikangas, 2006)

Agreeing on ways of working, roles and responsibilities

A lot more effort should be put into agreeing on the shared ways of working, and the roles and responsibilities of different parties. Providing the managers who were not included in the negotiation process with a "Deep Blue's way of working" manual (discussed closer in the Pre-deal part of this chapter) after the deal to create a foundation for discussions was seen as a good idea by the managers in Company B and E. Special attention should be paid to the responsibilities related to how the company finances are handled.

Building relationships with the key managers

Despite the message from most management interviewees being quite positive on how Deep Blue's deal teams built relationships with them, Deep Blue ought to at least consider injecting a certain level of systematization into how the all-important connective tissue between the management team, board and deal team is cultivated. They could build on e.g. the practice that Ashkenas et al. (1998) describe is used by GE Capital – one of the most widely cited companies to be an expert in integrating their acquisitions – to facilitate socialization and interactions at the management level quickly after the closing of a deal. As one of the first things done, GE Capital organizes orientation and planning sessions for the members of both firm's management teams. The intent of these sessions is to welcome the new managers into GE Capital, give the teams a chance to socialize with their new colleagues, share knowledge, and very importantly, share their feelings and reactions to the deal. The newly acquired managers are asked to talk about their organization, in particular about the positive aspects of their company – "what they feel good about, and what should be built upon". After letting them share their thoughts, GE Capital executives in turn describe what it means to be a part of their firm, what policies and standards need to be adhered to. The teams then move into jointly crafting a 100-day plan, providing them an early possibility for cooperation (Ashkenas et al., 1998). Also, the good experiences of organizing team outings had in Company C could be seen as encouragement to using these outings as a tool on a more systematic basis, although the main thing according to many interviewees is simply that enough time is spent on the newly acquired portfolio company during the first months.

Beginning board work

Deep Blue taking the position of Chairman of the board, and the deal team knowing how it wishes the board to function, it is important that Deep Blue makes sure that the ways working, governance practices and other practicalities are dealt with thoroughly enough in or before the first board meeting. Deep Blue could e.g. develop a template for what things need to be agreed upon to ensure that the board's working habits are efficient and goal-oriented. The findings of this study seem to indicate that at least documents such as Rules of Procedure, Year Clock and Corporate Governance manual are usually beneficial.

The board should also discuss what its relationship to the management team is – how the communications are organized, who is in contact with whom, how the management team is informed of the board's decisions etc. There seemed to be quite big differences in how individual partners at Deep Blue saw this theme. Some were proponents of open communication between the management team members and board members, whereas some found that the communication should be channeled more through the Chairman-CEO link. These kinds of differences in opinions, if not discussed openly, may end up resulting in unexpected challenges. Thus, Deep Blue should, if not agree on a common way of operating, at least agree on what the practice is case by case.

To sum up, the board should before or in its first meeting go through and agree on:

- General Rules of Procedure
- Whether or not to deploy a Year Clock
- Corporate Governance issues
- Reporting practices and how their development is to be led
- The board's relationship to the management team and other managers
- How the board is to visible to the organization
- The board's involvement in a possible strategy process
- How and when should the board conduct self-assessments
- How and when should the board material be delivered to the members
- Whether the board should form working groups around certain development themes

Developing the reporting practices

Because of the apparent difficulties in getting the portfolio firms to produce sufficiently good-quality reports, Deep Blue should device better methods to make sure the development initiatives lead to results faster. They could for example:

- Better clarify the reasons for why high-quality reporting is such an important thing (explained in the Results)
- Form a board's working group to manage, supervise and support the development initiatives

- Have a meeting as soon as possible after the deal with the CFO to clarify the development needs through concrete examples of “good reporting” from e.g. previous portfolio companies
- Develop a more standardized approach to what reports and metrics are demanded in all of their portfolio companies

In keeping with the 100-day plan methodology, approaching the first steps in the development of reporting practices as a project, may be highly beneficial. By crafting a project plan including the objectives, timetables, responsibilities, reporting and monitoring practices and how Deep Blue, being experts in issues related to financial reporting, will support the project with their know-how, would ensure a more systematized and efficient start into the development process. Quickly getting high quality reports and data from the company will have many beneficial implications, as explained in the Results.

Crystallizing and refining the company’s strategy (strategy process)

The strategy processes executed in the case companies varied a lot in many dimensions, including i.a.:

- How comprehensive, formal and heavy the process was
- When the strategy work was started
- Who the main people planning the process were
- Who were involved in the work, and what Deep Blue’s role was
- Who the process facilitator was (Deep Blue, consultant or management team itself)
- What tools or frameworks were used
- What the main outcomes were (financial and growth objectives vs. full-blown strategic plan)

It seems advisable to put more effort into explicitly discussing and planning the strategy process. E.g. in Company E, according to one deal team member and the interviewed managers, the decisions on how the process was organized and who was to facilitate it were done somewhat too hastily, leading into a near complete failure. When choosing the facilitators, it is important to make sure they have sufficient experience in leading strategy processes, not just consultancy in general. Also worth considering is the possibility of hiring consultants who not only facilitate the process, but also assist in the background work, providing analyses and data to support the decision-making. This way the managers are not burdened so much by the process, and can, after a possibly laborious deal-making process, concentrate more on running the company. This was the case in Company B, where it seems both the managers and deal team members were truly content with how the process went.

Deep Blue should carefully evaluate and communicate what their role in the strategy work is. Especially the managers of Company E were surprised how little Deep Blue participated in the process, and would have gladly seen them taking a bigger role. E.g. according to the CFO "Strategy work in that format was unfamiliar to us, so it would've been good if Deep Blue had participated more. Furthermore, our business was so familiar to us, that we'd needed an outside, out-of-the-box view." Also in the light of Company A, it seems particularly important for Deep Blue to take a stronger role in the process if the managers are not seasoned in the art of strategy work and strategic planning. Furthermore, according to the managers the one-day strategy workshop held quite soon after the deal was a good start, but going deeper, past the objective setting level into forming plans of how to achieve those goals, would have been beneficial. The CTO contemplated that at least they should've agreed on when and how to continue the strategy making. Making sure that everyone has a clear picture of where the company is going is essential.

In addition to the obvious benefit of creating a strategic direction and plan for the company, many interviewees also reported secondary benefits from strategy processes. These included i.a.

- Deep Blue getting to know the managers, organization and business
- People having the feeling of being given the possibility to influence the decisions made
- When integrating two or more companies, the managers from different firms get to know each other and learn to work together

Building momentum for change

In addition to planning the post-deal communications from the perspective of building momentum for change, Deep Blue could contemplate whether it might be beneficial to more actively and consciously induce so called "quick wins", easy-to-accomplish development initiatives sending a message to the organization that things are truly being done and changed. This procedure is described e.g. by e.g. Matthews et al. (2009), who propose a model for PE firms for prioritizing the many operational initiatives that could be undertaken in the newly acquired company. The authors explain that "Although private equity firms and their Operating Partners will inevitably devote the bulk of their attention to the high value/high difficulty projects that often determine the ultimate fate of the transaction, the inclusion of a limited number of low value/low difficulty projects in the 100-day plan will deliver an important benefit in the form of relatively easy gains." These easy gains, despite the relatively minor ultimate impact on the LBO's success, serve to energize the company management and employees, creating momentum for change from early on (Matthews et al., 2009).

Deep Blue could thus assume a policy of requesting from the management team a collection of all possible development actions, big and small, that they regard as potentially value adding initiatives. After this, using the framework proposed by Matthews et al. (2009), the deal team and management teams would, as a part of crafting the 100-day plan, pick a manageable number of small-scale projects to serve the function of producing these quick wins. As one deal team member in Company D explained, it is already common that the managers present Deep Blue with development initiatives that they had not had the possibility to start or complete under the previous owners. Now this practice could be solidified and combined to the 100-day plan and "quick win" methodologies.

Supporting the management team with know-how and resources

The studied cases indicated that the key contribution areas of Deep Blue are generally finances, reporting practices, strategy work, add-on acquisitions, organizational structures, use of outside resources such as consultants, and often also operative issues – a wide selection of the themes that is. Many of these areas have already been discussed above, but one theme that merits additional attention is Deep Blue's role in add-on acquisitions.

Having extensive experience and know-how of acquisitions, both in buying new portfolio companies and in growing these companies further with add-on acquisitions, Deep Blue is in a unique position to develop systematized approaches to add-on acquisition processes. It seems that the deal team's role is biggest in the pre-deal phases of these transactions – what comes to post-deal integration processes, they are generally handled by the management team. However, Deep Blue could take a more active role especially in planning the integration process by providing the managers with advice, best practices and other learnings from past acquisitions.

The literature on M&A provides us with an ample theory-base of best practices in acquisition processes. These best practices include i.a.:

- Having a clear process leader, who ensures that the process and its challenges are being dealt with in a holistic manner, coordinates the teamwork and communication flows, and has the know-how to make the best use of all team members' talent and knowledge. There is evidence that appointing one person as the ultimate dealmaker is beneficial. (Dionne, 1988; McSweeney & Happonen, 2012)

- The inclusion of an integration manager who will serve as a critical bridge between the pre- and post-deal phases. Unless the integration manager is a part of the acquisition process from early on, there is a high risk of losing the key knowledge, insights and relationships developed during the negotiations and due diligence processes, because typically the deal team disbands after the closing of the deal. (Ashkenas et al., 1998; McSweeney & Happonen, 2012)
- Including human resources (HR) representatives as part of the acquisition team (McSweeney & Happonen, 2012).
- Devising a clear business plan, stating the strategic logic of the purchase and desired financial returns and operating synergies, thus creating the foundation for the objectives and scope of the integration (McSweeney & Happonen, 2012).
- Creating an integration plan outlining how the desired future state and planned financial returns and synergies are to be reached on the operational level. It creates a timetable for the staged integration with milestones, deadlines and checkpoints, and determines the budget, including costs related to e.g. communication and travelling. (McSweeney & Happonen, 2012)
- Drawing up a 100-day plan, which addresses issues such as how customer operations are managed and subsequently integrated, when to organize management planning meetings, who to include in the integration team, and how the corporate cultures and values are taken into account in the process (Ashkenas et al., 1998; McSweeney & Happonen, 2012)

Ashkenas et al. (1998), in making a strong case for appointing a dedicated integration manager, argue that "Since acquisition integration is an ongoing process and not a discrete stage of a deal, someone needs to manage it." In their study of GE Capital acquisition processes in a number of deals, they identify the integration manager as key to successful acquisitions. At GE Capital, integration management is viewed as a full-time job, and is recognized as a distinct business function, just like operations, marketing or finance. Ashkenas et al. (1998) describe the key objectives attached to the integration manager's post as (1) facilitating and managing integration activities, (2) helping the acquired business to understand GE Capital, (3) helping GE Capital to understand the target business, and (4) building "connective tissue" between the organizations. In their follow-up study, Ashkenas and Francis (2000) posit that a dedicated integration manager helps the process in four principal ways: "they speed it up, create a structure for it, forge social connections between the two organizations, and help engineer short-term successes that produce business results."

Deep Blue's portfolio companies being much smaller in size and having fewer resources than GE Capital, appointing a full-time integration manager may not be possible in most cases. Nonetheless, more clearly assigning responsibility for the integration process to an individual manager seems advisable. This approach could additionally be utilized in buyout acquisitions where two companies are merged as a result of the buyout, like in case Companies A, B, C, and E.

5.1.2. General recommendations to Deep Blue

The findings of this study point to a clear need for a more unified way of planning and managing the post-deal honeymoon period among Deep Blue's partners and other team members. The differences in ways of working and views regarding e.g. the relationships between the board and managers should be discussed more thoroughly – brushing them under the carpet doesn't create a firm foundation for coherent teamwork in future cases. Even if it isn't possible to agree on a one and only philosophy and way of doing things, the approaches applied in any individual case should be explicitly agreed upon between the deal team members.

By agreeing on a more standardized way of planning and managing the post-deal honeymoon period, Deep Blue could improve its ways of working more systematically than at the moment, when many things are done on a case-by-case basis. Developing a clear process for "going into a company" would also make it easier to communicate their demands to the management team. This again would speed-up the handling of practicalities, prevent misunderstandings, and generally optimize the way the post-deal honeymoon period is planned and managed. Possible tools for increasing the standardization and clarity of the process include:

- The practice of creating an initial 100-day plan prior to the deal, and deepening it in cooperation with the management team quickly after the closing of the deal. A template suggestion for a 100-day plan was developed on the basis of the findings in this study, and can be found in the Appendices (Appendix X).
- Frameworks and checklists depicting the necessary steps in planning and managing the post-deal honeymoon period.
- A "manual" describing Deep Blue's way of doing things, what they will demand from the management team, and what things need to be discussed and agreed upon

before and after the deal. The manual could also explain the essential theories related to private equity buyouts, creating a better understanding of the situation for the managers who are not familiar with the world of private equity. A manual of this kind was crafted for Deep Blue as a part of this study, but cannot be disclosed here due to the delicate nature of the document.

- Templates and richer documentation on i.a. the required reporting practices, board's ways of working and its relationship to the management team
- Best practice approaches related to e.g. add-on acquisition integration management.

6. Conclusions

6.1. Summary of the Key Findings

This thesis studied how private equity investors should plan and manage the post-deal honeymoon period in a leveraged buyout. The main research problem gave rise to three separate research questions, which are reviewed and answered separately below.

> **Research question 1:** *Based on the current academic literature, how do private equity companies create value in leveraged buyouts, and what are the key issues with regard to planning and managing the post-deal honeymoon period?*

This question was answered in Chapter 2 by extensively reviewing the current academic literature on private equity and buyouts. After providing a general introduction to private equity and LBOs, the chapter described the value generation methods used by PE firms in building profitable investments. It was found that they can be categorized into levers of value capturing (financial arbitrage), and value capturing (financial engineering, increasing operational efficiency, increasing strategic distinctiveness, reduction of agency cost, and mentoring the managers).

Next the focus shifted into how previous research has dealt with the post-deal honeymoon period, its importance and what practices PE firms employ in planning and managing this crucial phase. Despite the widely acknowledged importance of the first months after the deal close, not a lot of effort has been directed into researching how PE firms should manage the process of "going into a company". Best practices such as spending enough time on the newly acquired business during the first 100 days, forming and executing robust value creation plans, and creating a balanced set of operational initiatives are suggested, but these pieces of advice remain quite superficial. A multitude of papers cite PE firms creating specific 100-day plans to ensure a smooth start for the holding period, but none of these studies detail what these plans usually include, or optimally should contain.

As the existing literature didn't give an explicit account of the key issues and actions related to planning and managing the post-deal honeymoon period, the value creation levers discussed above were dissected into measures likely to be taken by a PE firm in a buyout. This treatment served the purpose of building a thematic foundation for the empirical research.

All in all it can be concluded that the limited number of studies done on the post-deal honeymoon period in LBOs merely scratch the surface of the subject studied here. The PE industry and the academics studying the field are yet to develop a framework, standard process or a comprehensive set of best practices for planning and managing the post-deal phase.

> **Research question 2:** *Based on the empirical case studies, what are the current approaches to planning and managing the post-deal honeymoon period used by Deep Blue, and how* **successful** *have they been from the firm's partners' and the portfolio companies' management team's perspectives?*

Using case study as the research method, five quite recent SME buyouts done by a Finnish PE investor, "Deep Blue" (name changed), were studied in depth to uncover the approaches to planning and managing the post-deal honeymoon period employed by the individual deal teams.

The many challenges reported by the interviewees included i.a. problems in developing the portfolio companies' reporting practices, agreeing on roles and responsibilities, and inefficient board work. Most of these problems can, however, be seen to derive from the fact that Deep Blue is yet to develop a clear process for how it "goes into" a new portfolio company. This lack of systematization, coupled with the huge information asymmetries inherent in the situation, can potentially lead to e.g. the above-mentioned challenges.

> **Research question 3:** *Based on the theoretical and empirical findings, how should Deep Blue and other PE investors plan and manage the post-deal honeymoon period when acquiring a new portfolio company?*

The general findings of the study point to a clear need for a more unified and systematized way of planning and managing the post-deal honeymoon period. Developing a clearer process for "going into a company" would make it easier for Deep Blue's deal teams to communicate their demands and assumptions to the management team. This would speed up the handling of practicalities, prevent misunderstandings and bring about the transparency that many of the interviewed managers hoped for. The study recommended certain tools, such as the 100-day plan, for Deep Blue to ensure systematic and effective planning and management of the post-deal honeymoon period.

As the situational aspects are largely similar for any PE investor acquiring a new portfolio company, it seems evident that the findings and recommendations here are largely generalizable beyond Deep Blue.

6.2. Theoretical Contributions and Suggestions for Future Research

Despite the study's apparent limitation of focusing only on one single PE investor and its way of planning and managing the post-deal honeymoon periods in five of its portfolio firms, the findings seem easily generalizable to other PE investors as well. Surely e.g. the practice of having specialized teams for different stages of the pre- and post-deal phases used by some bigger PE firms, creates some fundamental differences related to issues such as relationship-building, but on a general level the results and recommendations described above most likely hold true even then. This is indicated by i.a. the fact that a majority of the themes and activities observed in the studied cases are in line with those found in prior academic literature, and vice versa.

The key academic contributions of this study are as follows:

- Synthesizing the existing literature on private equity buyouts, value creation in buyouts, and planning and managing the post-deal honeymoon period.
- Creating a categorization of the activities and themes related to the planning and management of the post-deal honeymoon period in PE buyouts.
- Building a better understanding of the key challenges and issues related to the start of the holding period.
- Making generalizable recommendations to private equity professionals on how to ensure an efficient start to the holding period.

Essentially this study constitutes a step in the direction of building the "standard active-ownership process that applies and develops best practices", which Heel & Kehoe (2005) argue "is the next step for the private equity industry".

The study also raised multiple avenues for future research in the field of private equity buyouts. First of all, the findings here need to be validated, broadened and deepened through studies with a larger number of private equity firms differing in dimensions such as size of the firm, deal team formation practices, and buyout target characteristics. Secondly, studying if the systematization of the planning and management of the post-deal honeymoon period truly increases success, would shed light on whether this truly is a the direction PE companies should be turning to.

Thirdly, an interesting theme to study would be how the involvement of deal team members in different activities, such as strategy-making, influences the investment success. Similarly, extremely interesting would be to compare the success-level of LBOs where 100-day plans and other tools were used to those with less formal planning methods.

Finally, to uncover whether private equity professionals are able to use their supposed expertize in acquisitions in add-on acquisitions and diffuse their knowledge of integration management to the management team, a study comparing the success of M&As done by companies with PE investors as major owners to ones done by companies not affiliated with PE investors could be made.

6.3. Limitations of the Study

There are some limitations to the study. As described above, the empirical part was based only on one single PE firm. Thus, to solidify the findings and recommendations, further studies with a larger number of diverse PE firms should be conducted. Secondly, the empirical part relied heavily on the conducted interviews, which are always embroided with bias, opinions, subjective perspectives and inaccurate recollections (Snow & Thomas, 1994). This problem was mitigated mainly by interviewing multiple people in all studied cases – both Deep Blue’s partners and the portfolio company’s management. Finally, it is always possible that the cognitive bias of the researcher influenced the direction and findings of the research. This in mind, the methods, results and interpretations were discussed and further validated with Deep Blue's representatives, case company management, and Aalto University professors and researchers.

When assessing the transferability of the findings, it must be taken into account that the study examined only one PE firm and five of its portfolio companies. It is hard to say how well these findings and recommendations can be generalized into other cultures, different firm and buyout sizes, and PE firms operating with varied processes. However, what implies a high level of transferability is the fact that the findings here are well in line with both the previous literature on LBOs and literature dealing with planning and managing the post-deal phase in M&A transactions.

References

Achleitner, A., Braun, R., & Engel, N. (2010). Value Creation Drivers in Private Equity Buyouts: Empirical Evidence from Europe. *The Journal of Private Equity*.

Anders, G. (1992). The "Barbarians" in the Boardroom. *Harvard Business Review*.

Ashkenas, R., DeMonaco, L., & Francis, S. (1998). Making the deal real: How GE Capital integrates acquisitions. *Harvard Business Review*.

Ashkenas, R., & Francis, S. (2000). Integration Managers - Special Leaders for Special Times. *Harvard Business Review*.

Baker, G., & Montgomery, C. (1994). Conglomerates and LBO Associations: A Comparison of Organizational Forms. *Harvard Business School working paper*, *4*, 1–34.

Berg, A., & Gottschalg, O. F. (2005). Understanding Value Generation in Buyouts. *Journal of Restructuring Finance*, *02*(01), 9–37.

Bloom, N., Sadun, R., & Reenen, J. Van. (2009). *Do Private Equity Owned Firms Have Better Management Practices?*

Brigl, M., Herrera, A., Liechtenstein, H., Meerkatt, H., Prats, M. J., & Rose, J. (2008). The Advantage of Persistence: How the Best Private Equity Firms Beat the Fade.

Cotter, J., & Peck, S. (2001). The structure of debt and active equity investors - The case of the buyout specialist. *Journal of Financial Economics*, *59*.

Cressy, R., Munari, F., & Malipiero, A. (2007). Playing to their strengths? Evidence that specialization in the private equity industry confers competitive advantage. *Journal of Corporate Finance*, *13*(4), 647–669.

Dionne, J. (1988). The Art of Acquisitions. *The Journal of Business Strategy*, *9*(6), 13–17.

Easterwood, J., Seth, A., & Singer, R. (1989). The Impact of Leveraged Buyouts on Strategic Direction. *California Management Review*, 30–44.

Ernst&Young. (2012). *Branching out: How do private equity investors create value? A study of European exits*.

Gottschalg, O. F., Loos, N., & Zollo, M. (2004). Working out where the value lies. *European Venture Capital Journal*, *113*, 36–39.

Haldevang, B. de. (2009). A New Direction in M&A Integration : How Companies Find Solutions to Value Destruction in People-Based Activity. *Global Business and Organizational …*, (June), 6–29.

Haleblian, J. J., & RajaGoplan, N. (2006). The Influence of Acquisition Experience and Performance on Acquisition Behavior: Evidence from the US Commercial Banking Industry. *Academy of Management*, *49*(2), 357–370.

Heel, J., & Kehoe, C. (2005). Why Some Private Equity Firms Do Better Than Others. *The McKinsey Quarterly*, (1), 24–26.

Jensen, M. (1989). Active Investors, LBOs, and the Privatization of Bankruptcy. *Journal of Applied Corporate Finance*, *2*(1), 35–44.

Kaplan, Sarah. (1989). The Effects of Management Buyouts on Operating Performance and Value. *Journal of Financial Economics*, *24*(2), 217.

Kaplan, SN, & Strömberg, P. (2008). Leveraged buyouts and private equity.

Kester, C., & Luehrman, T. (1995). Rehabilitating the Leveraged Buyout. *Harvard Business Review*, *73*, 119–119.

KKR. (1989). Leveraged Buy-Outs. *Journal of Applied Corporate Finance*, *2*(1), 74–81.

Klier, D., Welge, M., & Harrigan, K. (2009). The changing face of private equity: how modern private equity firms manage investment portfolios. *The Journal of Private Equity*.

Lichtenberg, F. R., & Siegel, D. (1990). The effects of leveraged buyouts on productivity and related aspects of firm behavior. *Journal of Financial Economics*, *27*(1), 165–194.

Long, W., & Ravenschaft, D. (1993). The financial perfromance of whole company LBOs. *Economic Studies from US Census*, *November*, 1–36.

Loos, N. (2005). *Value creation in leveraged buyouts. (Doctoral Dissertation).* St. Gallen.

Matthews, G., Bye, M., & Howland, J. (2009a). Operational improvement: the key to value creation in private equity. *Journal of Applied Corporate Finance*.

Matthews, G., Bye, M., & Howland, J. (2009b). Operational improvement: the key to value creation in private equity. *Journal of Applied Corporate Finance*.

McSweeney, B., & Happonen, E. (2012). Pre-deal Management. In D. Faulkner, S. Teerikangas, & R. Joseph (Eds.), *The Handbook of Mergers and Acquisitions* (p. 171194). Oxford: Oxford University Press.

Muscarella, C., & Vetsuypens, M. (1990). Efficiency and Organizational Structure: A Study of Reverse LBOs. *Journal of Finance*, *45*(5), 1389–1413.

Nisar, T. (2005). Investor Influence on portfolio company growth and development strategy. *The Journal of Private Equity*.

Opler, T., & Titman, S. (1993). The Determinants of Leveraged Buyout Activity: Free Cash Flow vs. Financial Distress Costs. *The Journal of Finance*, *XLV*(5), 1985–2000.

Phan, P., & Hill, C. (1995). Organizational restructuring and economic performance in leveraged buyouts: An ex post study. *Academy of Management Journal*.

Rogers, P., Holland, T., & Haas, D. (2002, June). Value acceleration: lessons from private-equity masters. *Harvard business review*.

Schwetzler, B. (2007). Value Generation in Private Equity Investments: Pilot Study on Value Drivers in 100-Day Programs.

Sharp, G. (2001). *European Private Equity - A practical guide for vendors, managers and entrepreneurs*. London: Euromoney Books.

Singh, H. (1990). Management Buyouts: Distinguishing Characteristics and Operating Changes Prior to Public Offering. *Strategic Management Journal*, *11*(4), 111–129.

Snow, C., & Thomas, J. (1994). Field-Research Methods in Strategic Management - Contributions to Theory Building and Testing. *Journal of Management Studies*, *31*(4), 457–480.

Teerikangas, S. (2006). *Silent Forces in Cross-Border Acquisitions: An Integrative Perspective on Post-acquisition Integration*. Helsinki University of Technology.

Teerikangas, S., & Joseph, R. (2012). Post-deal Integration: An Overview. In D. Faulkner, S. Teerikangas, & R. Joseph (Eds.), *The Handbook of Mergers and Acquisitions* (pp. 339–371). Oxford: Oxford University Press.

Tetenbaum, T. (1999). Beating the Odds of Merger & Acquisition Failure - Seven Key Practices That Improve the Chance for Expected Integration and Synergies. *Organizational Dynamics*.

Wood, G., & Wright, M. (2009). Private equity: A review and synthesis. *International Journal of Management Reviews*, *11*(4), 361–380.

Wright, M, Hoskisson, R., & Busenitz, L. (2001). Firm Rebirth: Buyouts as Facilitators of Strategic Growth and Entrepreneurship. *The Academy of Management …*.

Wright, Mike, Amess, K., Weir, C., & Girma, S. (2009a). Private Equity and Corporate Governance: Retrospect and Prospect. *Corporate Governance: An International Review*, *17*(3), 353–375.

Wright, Mike, Amess, K., Weir, C., & Girma, S. (2009b). Private Equity and Corporate Governance: Retrospect and Prospect. *Corporate Governance: An International Review*, *17*(3), 353–375.

Wright, Mike, & Robbie, K. (1996). The Investor-led Buy-out: A New Strategic Option. *Long Range Planning*, *29*(5), 691–702.

Zollo, M., & Singh, H. (2004). Deliberate learning in corporate acquisitions: post-acquisition strategies and integration capability in US bank mergers. *Strategic Management Journal*, *25*(13), 1233–1256.

Appendix A: Summary of cases – pre-deal period

Summary and comparison of studied cases – pre-deal period

	Company A	Company B	Company C	Company D	Company E
Deal-making process type	Direct	Direct	Direct	Auction	Direct
Due Diligences commissioned	Financial, Legal, Management audit (post-deal)	Financial, Legal, Tax, Commercial, Management audit (post-deal)	Financial, Legal, Commercial	Financial, Legal, Management audit (post-deal)	Financial, Legal, Tax, Commercial, Environmental, Management audit (pre-& post-deal)
Management team changes projected	Yes, additions	Yes, due to merger	Yes, CEO change	Yes, temporary CFO to be replaced by actual CFO	No
Board of directors composition finalized	No, still searching for one outside member	Yes	Yes	Yes	Yes
Chairman from Deep Blue	Yes	Yes	Yes	Yes	Yes
Deep Blue met with the whole mgmt team	Yes	No	Yes	No	Yes
Creation of vision and business plan	Mainly by Deep Blue	Deep Blue and mgmt team collaboratively	Management team	Management team	Mostly by the mgmt team
100-day or equivalent plan created	No	No	No	No	No
Communication plan	Planned by deal team and CEOs of the two units	Planned by deal team, CEOs, communication director, and previous owners	Planned by deal team, CEOs and the biggest Company's communication agency	Planned mostly by Chairman and CEO	Planned mostly by Chairman and CEO

Appendix B: Summary of cases – post-deal period

Summary and comparison of studied cases – post-deal period

	Company A	Company B	Company C	Company D	Company E
Deep Blue's role in communication	Planning	Planning, Chairman presented + road show	Planning, Chairman presented	Planning, Chairman presented + road show	Planning, Chairman presented + road show
Management team changes realized	CFO hired, CEO of one unit made CEO of the Group	CEO of the bigger firm made CEO of the Group. Formed a new mgmt team.	CEO change after six months	CFO, HR Director replaced	–
Strategy process scope and formality	One-day workshop, facilitated by Deep Blue	Very extensive, facilitated by strategy consultants	Informal during mgmt team-board outing	Small scale process lead and done by mgmt team	Extensive, facilitated by sales consultant
Strategy process starting point	A year after the deal	Immediately after deal	Some months after deal	Soon after deal	Immediately after deal
Deep Blue's participation in strategy process	Planning, facilitating and contributing	Planning, steering through consultants, minor contributions	Minor contribution	Instructing and challenging	Planning, minor contributions
Managers as members of the Board	No	No	No	No	Yes
Agreeing on ways of working in 1st board meeting	Simple Rules of Procedure document, Year Clock	Year Clock, discussion on ways of working	Discussion on ways of working, no documentation	Year clock, Corporate governance document, discussion on ways of working	Discussion on ways of working, no documentation, some themes set for future meetings
Board meetings / year	10	10	10	10	10
Deal team-management team relationship	Close, everyone communicates with everyone, no team outings	Relationship mainly through Chairman-CEO, no team outings	Relationship mainly through Chairman-CEO, 3-day board-mgmt outing	Relationship mainly through Chairman-CEO, no team outings	Relationship mainly through Chairman-CEO, no team outings
Development of reporting practices	Group-level reporting developed from scratch, Deep Blue closely involved and contributing	Group-level reporting a big project (integr. of two systems), Deep Blue mainly setting demands	Reporting practices on an OK level, Deep Blue actively instructing	Reporting practices on an OK level, Deep Blue actively instructing	Reporting practices needed work, Deep Blue setting demands mainly in board meetings
Key managers' co-ownership	Yes	Yes	Yes	Yes	Yes
Deep Blue's role in add-on	Screening and negotiations	Big role in screening and	No add-on acquisitions	No add-on acquisitions	Big role in screening and

acquisitions	handled quite independently by Deep Blue	negotiations, integration executed by mgmt			negotiations, but no acquisitions made.
Greatest challenges	Clarifying roles and responsibilities between board and managers, add-on acquisition integration, clarifying the firm's strategy, level of reporting practices	Managers felt more discussion was necessary on ways of working, development of reporting practices slow	Creating a cultural change i.e. getting the organization to realize the previous owner no longer leads the show	Deep Blue could have been more proactive in assisting with post-deal practicalities	Development of reporting practices not well handled, board work not efficient, strategy process a failure, integration proceeded slowly, roles not clear, deal team's team work
Degree of success of honeymoon period	Fairly successful, progress slower than expected	Successful	Successful	Very successful	Not successful, many challenges